UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________.

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________

Commission file number: 001-33602

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.
(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

British Virgin Islands
(Jurisdiction of incorporation or organization)

No. 2 Disheng Middle Road,
Beijing Economic-Technological Development Area,
Beijing, P. R. China 100176
(Address of principal executive offices)

Arden Xia, Tel: (86 10) 5898 1386, Email: xiachuan@hollysys.com

Address: No. 2 Disheng Middle Road, Beijing Economic-Technological Development Area, Beijing, P.R. China 100176
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, $0.001 par value per share	**HOLI**	**The NASDAQ Global Select Market**
Preferred Share Purchase Rights	**N/A**	**The NASDAQ Global Select Market**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or ordinary shares as of the close of the period covered by the annual report (June 30, 2020): 60,537,099 ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer, "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐
Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13 (a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No☒

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.

ANNUAL REPORT ON FORM 20-F
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

		Page
	PART I	
ITEM 1.	IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	8
ITEM 2.	OFFER STATISTICS AND EXPECTED TIMETABLE	8
ITEM 3.	KEY INFORMATION	8
ITEM 4.	INFORMATION ON THE COMPANY	46
ITEM 4A.	UNRESOLVED STAFF COMMENTS	74
ITEM 5.	OPERATING AND FINANCIAL REVIEW AND PROSPECTS	74
ITEM 6.	DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	98
ITEM 7.	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	109
ITEM 8.	FINANCIAL INFORMATION	110
ITEM 9.	THE OFFER AND LISTING	111
ITEM 10.	ADDITIONAL INFORMATION	112
ITEM 11.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	127
ITEM 12.	DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	128

PART II

ITEM 13.	**DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**	**129**
ITEM 14.	**MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITIES HOLDERS AND USE OF PROCEEDS**	**129**
ITEM 15.	**CONTROLS AND PROCEDURES**	**129**
ITEM 16A.	**AUDIT COMMITTEE FINANCIAL EXPERT**	**131**
ITEM 16B.	**CODE OF ETHICS**	**131**
ITEM 16C.	**PRINCIPAL ACCOUNTANT FEES AND SERVICES**	**131**
ITEM 16D.	**EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**	**132**
ITEM 16E.	**PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**	**132**
ITEM 16F.	**CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**	**132**
ITEM 16G.	**CORPORATE GOVERNANCE**	**132**
ITEM 16H.	**MINE SAFETY DISCLOSURE**	**133**

PART III

ITEM 17.	**FINANCIAL STATEMENTS**	**134**
ITEM 18.	**FINANCIAL STATEMENTS**	**134**
ITEM 19.	**EXHIBITS**	**135**

USE OF CERTAIN DEFINED TERMS

Except as otherwise indicated by the context, references in this annual report to:

- "Hollysys," "we," "us," or "our," and the "Company," refer to the combined business of Hollysys Automation Technologies Ltd., a BVI company, and its consolidated subsidiaries, HI, HAP, HAIP, PTHAI, Bond Group, Concord Group, CSHK, GTH, Clear Mind, World Hope, Helitong, Hollysys Group, Hangzhou Hollysys, Hangzhou System, Hollysys Industrial Software, Beijing Hollysys, Hollysys Electronics, Xi'an Hollysys, Hollysys Investment, HollySys Smart Energy, Cixi HollySys, Shandong Lukang and Xuzhou HollySys;
- "HI" refers to Hollysys International Pte. Limited, a Singapore company;
- "HAP" refers to Hollysys (Asia Pacific) Pte. Limited, a Singapore company;
- "HAIP" refers to Hollysys Automation India Private Limited, an India Company;
- Bond Group" refers to a group of our subsidiaries, including Bond Corporation Pte. Ltd., a Singapore company ("BCPL"), Bond M&E Pte. Ltd., a Singapore Company ("BMSG"), Bond M&E Sdn. Bhd., a Malaysia company ("BMJB"), and Bond M&E (K.L.) Sdn. Bhd., a Malaysia company ("BMKL");
- "Concord Group" refers to a group of our subsidiaries, including Concord Corporation Pte. Ltd. ("CCPL"), a Singapore company, and CCPL's subsidiaries, Concord Electrical Sdn. Bhd., a Malaysia company ("CESB"), Concord Corporation Pte. Ltd, Dubai Branch ("CCPL Dubai") Concord Electrical Contracting Ltd., a Qatar company("CECL"), and Concord M Design and Engineering Company Ltd, a Macau company("CMDE");
- "CSHK" refers to Concord Solutions (HK) Limited, a Hong Kong company;
- "PTHAI" refers to PT Hollysys Automation Indonesia, an Indonesian company
- "GTH" refers to Gifted Time Holdings Limited, a BVI company;

- "Clear Mind" refers to Clear Mind Limited, a BVI company;
- "World Hope" refers to World Hope Enterprises Limited, a Hong Kong company;
- "Helitong" refers Beijing Helitong Science & Technology Exploration Co., Ltd., a PRC company;
- "Hollysys Group" refers to Hollysys Group Co., Ltd., formerly known as Beijing Hollysys Science & Technology Co., Ltd, a PRC company;
- "Hangzhou Hollysys" refers to Hangzhou Hollysys Automation Co., Ltd., a PRC company;
- "Hangzhou System" refers to Hangzhou Hollysys System Engineering Co., Ltd., a PRC company;
- "Hollysys Industrial Software" refers to Beijing Hollysys Industrial Software Company Ltd., a PRC company;
- "Beijing Hollysys" refers to Beijing Hollysys Co., Ltd., a PRC company;
- "Hollysys Electronics" refers to Beijing Hollysys Electronics Technology Co., Ltd., a PRC company;
- "Xi'an Hollysys" refers to Xi'an Hollysys Co., Ltd, a PRC company;
- "Hollysys Investment" refers to Hollysys (Beijing) Investment Co., Ltd., a PRC company;
- "HollySys Smart Energy" refers to HollySys Smart Energy Technology (Beijing) Co., Ltd., a PRC company;
- "Cixi HollySys" refers to Cixi HollySys Precision Technology Co., Ltd., a PRC company;

"Shandong Lukang" refers to Shandong Lukang Pharmaceutical Engineering Design Co., Ltd., a PRC company;

"Xuzhou HollySys" refers to Xuzhou HollySys Valve Technology Co., Ltd., a PRC company;

- "RMB" and "CNY" refer to Renminbi, the legal currency of China; "SGD" and "S$" refer to the Singapore dollar, the legal currency of Singapore; "US dollar," "$" and "US$" refer to the legal currency of the United States; "MYR" refers to the Malaysian Ringgit, the legal currency of Malaysia; "AED" refers to the United Arab Emirates Dirham, the legal currency of United Arab Emirates; "HKD" refers to the Hong Kong dollar, the legal currency of Hong Kong; "MOP" refers to the Macau Pataca, the legal currency of Macau; "INR" refers to the Indian Rupee, the legal currency of India; and "QAR" refers to the Qatar Riyal, the legal currency of Qatar; "IDR" refers to Indonesia Rupiah, the legal currency of Indonesia.
- "BVI" refers to the British Virgin Islands;
- "China" and "PRC" refer to the People's Republic of China;
- "Hong Kong" and "Hong Kong SAR" refer to the Hong Kong Special Administrative Region of China;
- "Macau" refers to the Macau Special Administrative Region of China;
- "Exchange Act" refers to the Securities Exchange Act of 1934, as amended; and
- "Securities Act" refers to the Securities Act of 1933, as amended.

In addition, we have listed below certain technical terms we use to describe our business and industry:

- CTCS-2: Chinese Train Control System Level 2
- CTCS-3: Chinese Train Control System Level 3
- DCS: Distributed Control System
- DEH: Digital Electro-Hydraulic
- GW: Gigawatt
- IIoT: Industrial Internet of Things
- MW: Megawatt
- PaaS: Platform as a Service
- PLC: Programmable Logic Controller
- SaaS: Software as a Service
- SCADA: Supervisory Control and Data Acquisition

FORWARD-LOOKING INFORMATION

This annual report contains forward-looking statements and information relating to us that are based on the current beliefs, expectations, assumptions, estimates and projections of our management regarding our company and industry. These forward-looking statements are made under the "safe harbor" provision under Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the Private Securities Litigation Reform Act of 1995. When used in this annual report, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend", "plan" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. These statements reflect management's current view of us concerning future events and are subject to certain risks, uncertainties and assumptions, including among many others: our potential inability to achieve similar growth in future periods as we did historically, a decrease in the availability of our raw materials, the emergence of additional competing technologies, changes in domestic and foreign laws, regulations and taxes, changes in economic conditions, uncertainties related to China's legal system and economic, political and social events in China, the volatility of the securities markets, and other risks and uncertainties which are generally set forth under the heading, "Key information - Risk Factors" and elsewhere in this annual report. Should any of these risks or uncertainties materialize, or should the underlying assumptions about our business and the commercial markets in which we operate prove incorrect, actual results may vary materially from those described as anticipated, estimated or expected in this annual report.

All forward-looking statements included herein attributable to us or other parties or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, we undertake no obligations to update these forward-looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Consolidated Financial Data

The following table presents selected financial data regarding our business. It should be read in conjunction with our consolidated financial statements and related notes contained elsewhere in this annual report and the information under Item 5, "Operating and Financial Review and Prospects." The selected consolidated statement of comprehensive income data for the fiscal years ended June 30, 2018, 2019 and 2020 and the consolidated balance sheet data as of June 30, 2019 and 2020 have been derived from the audited consolidated financial statements of Hollysys that are included in this annual report beginning on page F-1. The selected statement of comprehensive income data for the fiscal years ended June 30, 2016 and 2017, and balance sheet data as of June 30, 2016, 2017 and 2018 have been derived from our audited financial statements that are not included in this annual report.

The audited consolidated financial statements for the years ended June 30, 2018, 2019 and 2020 are prepared and presented in accordance with generally accepted accounting principles in the United States, or US GAAP. The selected financial data information is only a summary and should be read in conjunction with the historical consolidated financial statements and related notes of Hollysys contained elsewhere herein. The financial statements contained elsewhere fully represent our financial condition and operations; however, they are not indicative of our future performance.

Financial information in this report is reported in United States dollars, the reporting currency of the Company.

(In USD thousands, except share numbers and per share data)

	Years ended June 30,				
	2016	**2017**	**2018**	**2019**	**2020**
Statement of Comprehensive Income Data					
Revenue	544,325	431,943	540,768	570,341	503,327
Operating income	120,583	60,270	120,244	123,626	69,428
Income before income taxes	137,742	83,355	129,642	143,723	97,497
Net income attributable to Hollysys	118,471	68,944	107,161	125,261	79,396
Non-GAAP net income attributable to Hollysys	121,497	70,120	108,891	126,156	80,106
Weighted average ordinary shares:					
Basic	59,170,050	60,189,004	60,434,019	60,456,524	60,478,717
Diluted	60,611,456	61,011,510	61,248,565	61,273,884	60,609,242
Earnings per share:					
Basic	2.00	1.15	1.77	2.07	1.31
Diluted	1.97	1.14	1.75	2.05	1.31
Non-GAAP earnings per share:					
Basic	2.05	1.16	1.80	2.09	1.32
Diluted	2.02	1.16	1.78	2.07	1.32
Balance Sheet Data					
Total current assets	827,310	865,356	1,000,898	1,109,478	1,174,494
Total assets	1,004,156	1,058,254	1,210,128	1,309,417	1,360,835
Total current liabilities	297,326	302,978	333,054	341,499	327,302
Total liabilities	321,471	334,714	367,775	362,257	371,949
Net assets	682,685	723,540	842,353	947,160	988,886
Non-controlling interests	8,529	21	301	1,774	4,403
Stockholders' equity	674,156	723,519	842,052	945,386	984,483

Non-GAAP Measures

In evaluating our results, the non-GAAP measures of "Non-GAAP general and administrative expenses ("Non-GAAP G&A expenses")","Non-GAAP cost of integrated solutions contracts", "Non-GAAP other income (expenses), net", "Non-GAAP net income attributable to Hollysys" and "Non-GAAP earnings per share" serve as additional indicators of our operating performance and not as a replacement for other measures in accordance with US GAAP. We believe these non-GAAP measures are useful to investors as they exclude: 1) share-based compensation expenses, 2) amortization of intangible assets, 3) acquisition-related consideration fair value adjustments and 4) fair value adjustments of a bifurcated derivative. All of above will not result in any cash inflows or outflows. We believe that using non-GAAP measures help our shareholders have a better understanding of our operating results and growth prospects. In addition, given the business nature of Hollysys, it has been a common practice for investors and analysts to use such non-GAAP measures to evaluate the Company. Specifically, the non-GAAP measures excluded the following items:

1) Share-based compensation expenses, which are calculated based on the number of shares or options granted and the fair value as of grant date.

2) Amortization of intangible assets, which is a non-cash expense relating primarily to acquisitions. At the time of an acquisition, the identifiable definite-lived intangible assets of the acquired company, such as customer relationships and order backlog, are valued and amortized over their estimated lives. Value is also assigned to the acquired indefinite-lived intangible assets, which comprise goodwill that are not subject to amortization.

3) Acquisition-related consideration fair value adjustments are accounting adjustments to report contingent share consideration liabilities at fair value and cash consideration at present value. These adjustments can be highly variable and are excluded from our assessment of performance because they are considered non-operational in nature and, therefore, are not indicative of current or future performance or ongoing costs of doing business.

4) Fair value adjustments of a bifurcated derivative are accounting adjustments to report the change of fair value of the feature bifurcated as a derivative from the underlying host instrument of a convertible bond, and accounted for as a liability at its fair value.

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

(In USD thousands, except share numbers and per share data)

	Years ended June 30,				
	2016	**2017**	**2018**	**2019**	**2020**
Cost of integrated solutions contracts	310,545	277,476	314,233	325,523	281,818
Less: Amortization of intangible assets	818	623	598	311	300
Non-GAAP cost of integrated solutions contracts	309,727	276,853	313,635	325,212	281,518
G&A expenses	45,832	44,297	46,323	40,701	39,114
Less: Share-based compensation expenses	3,860	464	1,207	238	410
Non-GAAP G&A expenses	41,972	43,833	45,116	40,463	38,704
Other income (expenses), net	4,061	1,722	4,349	2,710	4,683
Add: Acquisition-related incentive share contingent consideration fair value adjustments	(1,745)	—	—	—	—
Add: Fair value adjustments of a bifurcated derivative	93	89	(75)	346	—
Non-GAAP other income, net	2,409	1,811	4,274	3,056	4,683
Net income attributable to Hollysys	118,471	68,944	107,161	125,261	79,396
Add: Share-based compensation expenses	3,860	464	1207	238	410
Amortization of intangible assets	818	623	598	311	300
Acquisition-related consideration fair value adjustments	(1,745)	—	—	—	—
Fair value adjustments of a bifurcated derivative	93	89	(75)	346	—
Non-GAAP net income attributable to Hollysys	121,497	70,120	108,891	126,156	80,106
Weighted average number of ordinary shares outstanding used in computation:					
Basic	59,170,050	60,189,004	60,434,019	60,456,524	60,478,717
Diluted	60,611,456	61,011,510	61,248,565	61,273,884	60,609,242
GAAP earnings per share: Basic	2.00	1.15	1.77	2.07	1.31
Add: Share-based compensation expenses	0.07	0.01	0.02	—	0.01
Amortization of intangible assets	0.01	—	0.01	0.01	—
Acquisition-related consideration fair value adjustments	(0.03)	—	—	—	—
Fair value adjustments of a bifurcated derivative	—	—	—	0.01	—
Non-GAAP earnings per share: Basic	2.05	1.16	1.80	2.09	1.32
GAAP earnings per share: Diluted	1.97	1.14	1.75	2.05	1.31
Add: Share-based compensation expenses	0.06	0.01	0.02	—	0.01
Amortization of intangible assets	0.01	0.01	0.01	0.01	—
Acquisition-related consideration fair value adjustments	(0.02)	—	—	—	—
Fair value adjustments of a bifurcated derivative	—	—	—	0.01	—
Non-GAAP earnings per share: Diluted	2.02	1.16	1.78	2.07	1.32

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our capital stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this annual report, before making an investment decision. If any of the following risks actually occurs, our business, prospects, financial condition or results of operations could suffer. In that case, the trading price of our capital stock could decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

We commit substantial resources to new product and service development and acquisition opportunities in order to stay competitive and grow our business, and we may fail to offset the increased cost of such investment with a sufficient increase in net sales or margins.

The success of our business depends in great measure on our ability to keep pace with, or even lead, changes that occur in our industry and expand our product and service offerings. Traditionally, the automation and control systems business was relatively stable and slow moving. Successive generations of products offered only marginal improvements in terms of functionality and reliability. However, the emergence of computers, computer networks and electronic components as key elements of the systems that we design and build has accelerated the pace of change in our industry. Where there was formerly as much as a decade or more between successive generations of automation systems, the time between generations is now as little as two to three years. Technological advances and the introduction of new products, new designs and new manufacturing techniques by our competitors could adversely affect our business unless we are able to respond with similar advances. To remain competitive, we must continue to incur significant costs in product development, equipment and facilities and to make capital investments and seek complementary acquisitions. These costs may increase, resulting in greater fixed costs and operating expenses than we have incurred to date. As a result, we could be required to expend substantial funds for and commit significant resources to the following:

- Research and development activities on existing and potential product solutions;

- Additional engineering and other technical personnel;
- Advanced design, production and test equipment;
- Manufacturing services that meet changing customer needs;
- Technological changes in manufacturing processes;
- Expansion of manufacturing capacity; and
- Acquiring technology through licensing and acquisitions.

Our future operating results will depend to a significant extent on our ability to continue providing new product and service solutions that compare favorably on the basis of time to market, cost and performance, with competing third-party suppliers and technologies. However, we may develop new products and services that do not gain market acceptance, which would result in the failure to recover the significant costs for design and manufacturing for new product solutions or service development, thus adversely affecting operating results.

Our businesses and financial performance may be affected by changes in the PRC government policies promoting infrastructural development, such as high-speed rail and urban mass transit. Any decrease in the public expenditures on, or any change in the public procurement policies or industry standards relating to, such industries may affect our business.

Our business includes providing high-speed rail signaling systems that ensure operational safety of passenger trains. The development of the PRC high-speed rail signaling system industry is dependent upon state planning and investment in high-speed rail transportation projects. The nature, scale and timetable of these projects may be affected by a number of factors, including the overall state investment in high-speed rail transportation projects and approval of such new projects. By the end of the 2019, the total length of China's high-speed railway was around 36,000 kilometers. We cannot predict whether the total annual investment in and the market size of the PRC high-speed railway industry will continue to grow in the future. If the total annual investment or the market size declines, our business and financial position may be adversely affected.

We have also provided our SCADA System, or supervisory control and data acquisition system, to a number of China's subway lines over the past years. Although the PRC government has historically been supportive of the development of the urban mass transit industry, its industrial policy may change from time to time and it may adopt new policies or measures to further regulate the urban mass transit industry due to changes in macroeconomic trends or certain unexpected events.

In our rail transportation segment, we experienced revenue increases in the latter years of the 12th Five-Year Plan as Chinese policymakers ramped up spending to meet plan targets. For our fiscal years ended June 30, 2015, and 2016, our revenue from the rail transportation segment was $193.3 million and $240.3 million, respectively. Revenue from this segment decreased at the beginning of 13th Five-Year plan to $155.7 million for the fiscal year ended 2017 as state bureaucracies adjusted to the new plan and state priorities. This decrease in revenue from our rail transportation segment accounted for approximately 75% of the decrease in our total net revenues in the fiscal year ended June 30, 2017, as compared to fiscal year ended June 30, 2016. In the fiscal year ended June 30, 2018, revenue from the rail transportation segment rebounded to $190.6 million, as implementation efforts for the 13th Five-Year Plan further advanced. In the fiscal year ended June 30, 2019, revenue from the rail transportation segment increased further to $208.9 million. In the fiscal year ended June 30, 2020, due to COVID-19, some project execution and contract bidding of rail transportation were delayed, especially in the third quarter of the fiscal year 2020, our rail transportation revenue for the fiscal year 2020 decreased to $201.3 million.

The spending patterns and priorities of Chinese policymakers, however, cannot be predicted with certainty. We cannot assure you that the generally favorable policies will remain in force in the future. In addition, the impact of rail transportation projects on our revenue from integrated solutions contracts was even more significant in the fiscal year ended June 30, 2017. Our overall revenue from integrated solutions contracts in the fiscal year ended June 30, 2017 decreased $92.3 million compared to the fiscal year ended June 30, 2016, primarily due to a decrease of $89.4 million from rail transportation projects, along with a decrease of $11.2 million from industrial automation projects, partially offset by an increase of $8.3 million in mechanical and electrical solutions business. If the PRC government reduces its public investment in, or changes any industrial standards relating to the high-speed railway industry, railway or urban mass transit industry in the PRC, if any of our major customers changes its procurement or bidding policy, or if our rail transportation projects face challenges, there could have a material adverse effect on our business, financial position and results of operations.

Our capital and human resources committed to product and service offerings may not always achieve anticipated results and we may not be able to develop new products that meet market demand or successfully introduce new products in a timely manner.

We are a technology-driven company. To maintain our leading position in the industry and meet the requirement of safety and efficiency, we have to continuously improve existing technology and products, and design and develop new technology, product and service offerings that closely follow technology development trends and customer needs. However, we cannot guarantee that our capital and human resources activities will always keep pace with market demand and technological advances or yield the anticipated results. The products and services, which we have spent substantial capital and human resources to develop, may not be able to deliver expected commercial returns when they are developed due to changing technology trends and market demands. If we encounter delays in technology development, fail to meet changing market demands, underestimate or fail to follow technological trends, or if our competitors respond more quickly than we do, our business or operating results may be materially and adversely affected. Failure to develop and introduce new product and service solutions in the areas of industrial automation, rail transportation and mechanical and electrical solutions on a timely basis or at all could adversely affect our competitiveness and profitability.

Loss of major customers or changes in their orders may have an adverse impact on our business.

We have developed significant customer relationships with several local urban mass transit providers and railway authorities in respect of the high-speed train system in China. For example, we currently have major contracts with the MTR Corporation Ltd. of Hong Kong, and Land Transport Authority of Singapore. We expect to continue to rely on our current major customers for a portion of our revenue in the future. Moreover, due to the nature of our business, the contract value of a single contract tends to be large. As such, our cash flows may become dependent on those customers' payment practices and overall public funding policies, including the lengthening of collection times under contracts that have been performed. If our major customers significantly reduce, modify, postpone or cancel their purchase orders with us, we may not be able to get substitute orders with similar terms from other customers in a timely manner or at all. If we are not able to enter into contracts with our major customers on terms favorable to us or at all, our business and financial position may be adversely affected.

We do not have long-term purchase commitments from our customers, and we are exposed to potential volatility in our turnover.

Our business with our customers has been, and we expect it will continue to be, conducted on the basis of actual purchase orders received from time to time. Our customers are not obligated in any way to continue to place orders with us at the same or increased levels or at all. In addition, our customers may change or delay or terminate orders for products and services without notice for reasons unrelated to us, including lack of market acceptance for the products that our system was designed to control.

We cannot assure you that our customers will continue to place purchase orders with us at the same volume or same margin, as compared to prior periods, or at all. We may not be able to locate alternative customers to replace purchase orders or sales. As a result, our business, financial condition and results of operations may vary from period to period and may fluctuate significantly in the future.

An increase in our contract backlog may reflect our inability to perform our contracts on a timely basis instead of our ability to expand our business.

Our backlog indicates our ability to sell our products and services and increase our revenue, which represents an estimated amount of unrealized revenue of work remaining to be completed in accordance with the terms of the contract. Backlog is not a standard financial measure that has been defined by generally accepted accounting principles, and may not be indicative of future operating results. The amount of our aggregate backlog is based on the assumption that our relevant contracts will be performed in full in accordance with their terms. The termination or modification of any one or more major contracts may have a substantial and immediate effect on our backlog. We cannot guarantee that the amount estimated in our backlog will be realized in full, in a timely manner, or at all, or that, even if it is realized, such backlog will result in profits as expected. As a result, you should not rely on our backlog information presented in this report as an indicator of our future earnings.

We may face risks associated with our international expansion efforts, which could result in significant additional costs for our business operations.

A core component of our growth strategy is international expansion. As we continue to expand our international operations, we will be increasingly susceptible to the risks associated with overseas expansion. We have a limited operating history outside of the PRC and management of our international operations requires significant resources and management attention. Entering into new markets presents challenges, including, among others, the challenges of supporting a rapidly growing business in new environments with diverse cultures, languages, customs, legal systems, alternative dispute systems and economic, political and regulatory systems. We expect to incur significant costs associated with expanding our overseas operations, including hiring personnel internationally. The risks and challenges associated with overseas expansion include:

- uncertain political and economic climates;
- lack of familiarity and burdens of complying with foreign laws, accounting and legal standards, regulatory requirements, tariffs and other barriers;
- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;
- lack of experience in connection with the localization of our applications, including translation into foreign languages and adaptation for local practices, and associated expenses and regulatory requirements;
- difficulties in adapting to differing technology standards;
- longer sales cycles and accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations, including differing legal and cultural expectations for employee relationships and increased travel, infrastructure and legal compliance costs associated with international operations;
- fluctuations in exchange rates that may increase the volatility of our foreign-based revenue and expenses;
- potentially adverse tax consequences, including the complexities of foreign value-added tax, goods and services tax and other transactional taxes;
- reduced or varied protection for intellectual property rights in some countries;
- difficulties in managing and adapting to differing cultures and customs;
- data privacy laws which require that customer data be stored and processed in a designated territory subject to laws different from those of the PRC;
- new and different sources of competition as well as laws and business practices favoring local competitors and local employees;

- compliance with anti-bribery laws, including compliance with the Foreign Corrupt Practices Act;
- increased financial accounting and reporting burdens and complexities; and
- restrictions on the repatriation of earnings.

In addition, in our international business expansion to Southeast Asia, India and the Middle East, we may not be able to find adequate and qualified local engineers to bid and complete sizable rail transportation orders and industrial automation projects, and because of visa problems, we may have difficulties relocating adequate engineers from China to various foreign countries and have them stay there long enough to finish the projects, which could have an adverse impact on our international business expansion.

As a result of these factors, international expansion may be more difficult, take longer and not generate the results we anticipate, which could negatively impact our growth and business.

If we fail to accurately estimate the overall risks or costs under the contracts with our customers, or the time needed to complete the relevant projects under such contracts, we may experience cost overruns, schedule delays, lower profitability or even losses under such contracts when we perform such contracts.

We derive around 82% of our total consolidated revenues from the integrated solutions contracts that we have won through a competitive bidding process. The purpose of an integrated solutions contract is to furnish an automation system that provides the customer with a total solution for the automation or process control requirement being addressed. These contracts require us to complete projects at a fixed price, and therefore expose us to the risk of cost overruns. Cost overruns, whether due to efficiency, estimates or other reasons, could result in lower profit or losses. Other variations and risks inherent in the performance of fixed-price contracts such as delays caused by technical issues, and any inability to obtain the requisite permits and approvals, may cause our actual risk exposure and costs to differ from our original estimates.

In addition, we may be unable to deliver products or complete projects in accordance with the schedules set forth under the integrated solutions contracts. Our projects and our manufacturing and sales of products could be delayed for a number of reasons, including those relating to market conditions, policies, laws and regulations of the PRC and other relevant jurisdictions, availability of funding, transportation, disputes with business partners and subcontractors, technology and raw materials suppliers, employees, local governments, natural disasters, power and other energy supplies, and availability of technical or human resources.

We cannot guarantee that we will not encounter cost overruns or delays in our current and future delivery of products and completion of projects. If such cost overruns or delays were to occur, our costs could exceed our budget, and our profits on the relevant contracts may be adversely affected.

Our products may contain design or manufacturing defects that could result in product liability claims and cause us to suffer losses, and such defects could adversely affect demand for our products and services.

Our products are very complex, integrated systems, often with elements designed specifically for the particular situation of a customer. These products may have dormant design or manufacturing issues or defects that are not detected until they are put into actual use. Also, we manufacture spare parts for maintenance and replacement purposes after completion of integrated solutions contracts. While there have been no significant issues or defects identified as of the date of this annual report, any issues or defects in the design, manufacture and spare parts we provide may result in returns, claims, delayed shipments to customers or reduced or cancelled customer orders and other forms of damages asserted against us. A product issue or defect or negative publicity concerning defective products or services of ours could adversely affect our results of operations, reputation, customer satisfaction and market share.

Moreover, we are increasingly active in the conventional and nuclear power generation and railway control systems sectors. Each of these sectors poses a substantially higher risk of liability in the event of a system failure than is present in the industrial process controls markets in which we have traditionally competed. In certain jurisdictions that impose strict liability on product defects, we could be held liable for injuries or accidents involving our products even if the defects are not caused by us. We may be held liable for any damages or losses incurred in connection with or arising from defective products manufactured or designed by us, and if the damages or losses are severe, we may also be subject to administrative penalties imposed by the government. If our products or services are proven to be defective and have caused personal injury, property damage or other losses to rail passengers, we may be held responsible under liability claims under the laws of the PRC or other jurisdictions in which our products or services are sold, used or provided. We may need to devote substantial funds and other financial and administrative resources to rectifying or preventing potential product liability incidents, which could adversely affect our working capital, cash flow and results of operation.

As a practice, we generally do not carry large amounts of product liability insurance for our products, and we may not be able to obtain adequate insurance coverage in the future or may experience difficulties in obtaining the insurance coverage we need, which could negatively affect our business, financial condition and results of operations. The typical industrial practice is for the customers to obtain insurance to protect against their own operational risks. Any claims against us, regardless of their merits, could materially and adversely affect our financial condition. If we recall any of our products or are punished by governmental authorities, our business activities, financial condition and results of operations, as well as reputation, could be adversely affected.

Since we use a variety of raw materials and components in our production, shortages or price fluctuations of raw materials and the inability of key suppliers to meet our quantity or quality requirements could increase the cost of our products, undermine our product quality and adversely impact our business

Our major requirements for raw materials include bare printed circuit boards, electronic components, chips, cabinets and cables. Although we believe the sources of supply for these raw materials and components are generally adequate, any shortages or price increases could lead to higher cost of sales in the future. Our inability to pass on all or any raw material price increases to our customers or suppliers or offset the price fluctuations through commodity hedges could adversely affect our business, financial condition and results of operations.

Moreover, we procure our major raw materials, bare printed circuit boards, from suppliers based on our requirements and design considerations. Our suppliers may not be able to scale production or adjust delivery of products during times of volatile demand. In addition, we cannot guarantee that our suppliers have developed adequate and effective quality control systems. Our vendors' inability to meet our volume requirements or quality standards may materially and adversely affect our brand and reputation, as well as our business, financial condition and results of operations.

We may experience material disruptions to our productions and business operations.

We primarily manufacture the hardware of our products in Beijing and Hangzhou facilities and in certain occasions outsource the production to third-party manufacturers. These facilities may be affected by natural or man-made disasters and other external events, including but not limited to fire, natural disasters, weather, manufacturing problems, diseases, strikes, transportation interruption, government regulation or terrorism. Any such disruptions or facility downtime could prevent us from meeting customer demand for our product and require us to make unexpected capital expenditures. Additionally, the lessors of some of our leased properties have defects in their titles and we may be required to cease using such leased properties if a valid claim is made against such properties. In such circumstances, we may not be able to find new leases on terms acceptable to us, or at all. Any of these disruptions may force us to cease operations, shift production to other third-party manufacturers or cease certain parts of our business operations, which could incur substantial costs or take a significant time to re-start production or operations, each of which may adversely impact our business and results of operations.

Security breaches or disruptions of our information technology systems could adversely affect our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. Additionally, we collect and store certain data, including proprietary business information, and may have access to confidential or personal information in certain of our businesses, which is subject to privacy and security laws and regulations, and customer-imposed controls. These technology networks and systems may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components; power outages; telecommunications or system failures; terrorist attacks; natural disasters; employee error or malfeasance; server or cloud provider breaches; and computer viruses or cyberattacks. Cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology networks and systems to more sophisticated and targeted measures, known as advanced persistent threats, directed at us, our products, customers and/or third-party service providers. Despite the implementation of cybersecurity measures (including access controls, data encryption, vulnerability assessments, continuous monitoring, and maintenance of backup and protective systems), our information technology systems may still be vulnerable to cybersecurity threats and other electronic security breaches. It is possible for such vulnerabilities to remain undetected for an extended period, up to and including several years. In addition, it is possible a security breach could result in theft of trade secrets or other intellectual property or disclosure of confidential customer, supplier or employee information. We cannot guarantee that we will be able to prevent security breaches or other damage to our information technology systems, nor can we guarantee that our internal control and compliance programs will be able to adequately address all or any of such breaches. Disruptions caused by any such breaches or damage could have an adverse effect on our operations, as well as expose us to litigation, liability or penalties under privacy laws, increased cybersecurity protection costs, reputational damage and product failure.

Our goodwill is subject to impairment review and any goodwill impairment may negatively affect our reported results.

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired. Our outstanding goodwill as of June 30, 2020 was related to the acquisition of Hollysys Industrial Software in July 2017 and Shandong Lukang in August 2019. Based on our quantitative assessment, the goodwill related to Bond Group acquisition was impaired by $35.8 million as of June 30, 2020. We performed a qualitative assessment for Hollysys Industrial Software and Shandong Lukang in 2020 and evaluated all relevant factors, weighed all factors in their entirety and concluded that no impairment charge for Hollysys Industrial Software or Shandong Lukang was needed as of June 30, 2020.

However, there are uncertainties surrounding the amount and timing of future expected cash flows for Hollysys Industrial Software and Shandong Lukang. In future, if actual future cash flows being less than forecasted or delays in the timing of when those cash flows are expected to be realized, goodwill impairment might be triggered. Further, the timing of when actual future cash flows are received could differ from our estimates, which are based on historical trends and do not factor in unexpected delays in project commencement or execution.

In addition, we might make acquisitions and execute other forms of business combination, which would record goodwill, from to time in the future.

We may experience delays or defaults in payment of accounts receivables or in release of retention by our customers, which may adversely affect our cash flow and working capital, financial condition and results of operations.

In line with the industry practice, we typically have a long receivable collection cycle. We face the risk that customers may delay their settlement with us or delay or fail to pay us as scheduled especially due to the impact of COVID-19. Furthermore, defaults in payments to us on projects for which we have already incurred significant costs and expenses can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available to fund other projects. We cannot assure you that payments from customers will be made in a timely manner or at all, or that delays or defaults in payments will not adversely affect our financial condition and results of operations.

Our operations require certain permits, licenses, approvals and certificates, the revocation, cancellation or non-renewal of which could significantly hinder our business and operations, and we are subject to periodic inspections, examinations, inquiries and audits by regulatory authorities.

We are required to obtain and maintain valid permits, licenses, certificates and approvals from various governmental authorities or institutions under relevant laws and regulations for our businesses of design and integration, equipment manufacturing and system implementation services. We must comply with the restrictions and conditions imposed by various levels of governmental agencies to maintain our permits, licenses, approvals and certificates. If we fail to comply with any of the regulations or meet any of the conditions required for the maintenance of our permits, licenses, approvals and certificates, our permits, licenses, approvals and certificates could be temporarily suspended or even revoked, or the renewal thereof, upon expiry of their original terms, may be delayed or rejected, which could materially and adversely impact our business, financial condition and results of operations.

We are subject to periodic inspections, examinations, inquiries and audits by regulatory authorities and may be subject to suspension or revocation of the relevant permits, licenses, approvals or certificates, or fines or other penalties due to any non-compliance identified as a result of such inspections, examinations, inquiries and audits. We cannot assure you that we will be able to maintain or renew our existing permits, licenses, approvals and certificates or obtain future permits, licenses, approvals and certificates required for our continued operation on a timely basis or at all. In the event that we fail to comply with applicable laws and regulations or fail to maintain, renew or obtain the necessary permits, licenses, approvals or certificates, our qualification to conduct various businesses may be adversely impacted.

As we expand our business outside of mainland China, we will encounter the increasing need for international certifications and compliance with the regulation of different governments, which if not obtained and complied with may adversely impact our business.

We are expanding our business outside of mainland China, including seeking business opportunities in Hong Kong SAR, Singapore, Malaysia, India, Indonesia, and the Middle East. For our marketing both in China and in other jurisdictions, we seek international certifications and have obtained certificates such as the European Safety Standard Certification Level 4. As we operate in jurisdictions other than China, we will have to comply with local laws, some of which relate to various safety and quality requirements for the kinds of products we provide. The failure to have any necessary or beneficial certifications and the failure to comply with local laws will have an adverse impact on our marketing and business, and may result in additional costs and expenses.

We are exposed to risks associated with public project contracts.

Due to the nature of our industry, we are exposed to risks associated with public project contracts. For example, many of our contracts are for large and high-profile high-speed railway or urban mass transit infrastructure projects, which can result in increased political and public scrutiny of our work. Certain of our customers are affiliated with government authorities. Such customers may delay making payments for our projects, and it may take a considerably longer period of time to resolve disputes with these customers than resolving disputes with customers in private sectors.

Moreover, such government-affiliated customers may require us to undertake additional obligations, change the type of our services, equipment used or other terms of service, or purchase specific equipment, or modify other contractual terms from time to time for the social benefit or other administrative purposes, resulting in additional costs incurred by us, which may not be reimbursed by such customers in full. If any early termination by any government-affiliated customers occurs or if government-affiliated customers fail to renew their contracts with us in the future, our backlog may be reduced and our investment plan may be hindered, which may have a material adverse effect on our business and financial performance.

Many of our competitors have substantially greater resources than we do, allowing them to compete on an advantageous basis.

We operate in a very competitive environment with many major international and domestic companies, such as Honeywell, General Electric, ABB, Siemens, Emerson, Yokogawa and Hitachi. Many of our competitors are much better established and more experienced than we are, have substantially greater financial resources, operate in more international markets and are much more diversified than we are. As a result, they are in a stronger position to compete effectively with us. These large competitors are also in a better position than we are to weather any extended weaknesses in the market for automation and control systems. Other emerging companies or companies in related industries may also increase their participation in our market, which would add to the competitive pressures that we face.

Our business operations are largely dependent on our senior management and our ability to attract and retain engineering talents.

The stability of our business operations and the continuing growth of our business depend on the continuing services of our senior management and engineering talents. In the industries in which we operate, industry experience, management expertise and strategic direction are crucial. If we lose the services of our senior management and engineering staff, we may not be able to recruit a suitable or qualified replacement and may incur further costs and expenses to recruit and/or train new employees. In particular, any sudden loss of a member of our senior management or engineering staff may disrupt our strategic direction and leadership. As we continue to expand our business, we will need to continue to attract and retain experienced management personnel with extensive experience in the industries in which we operate.

We believe that competition for experienced personnel in the areas of industrial automation, rail transportation and mechanical and electrical solutions is intense. Competition for such qualified personnel could lead to higher emoluments and other compensations in order to attract and retain such personnel.

This may lead to an increase in our operating costs. If we are not able to retain the members of our senior management or engineering staff required to achieve our business objectives, this may materially and adversely affect our business operations and our prospects.

Our control systems are used in infrastructure projects such as subway systems, surface railways and nuclear plants; to the extent that our systems do not perform as designed, we could be found responsible for the damage resulting from that failure.

We face potential responsibility for the failure of our control systems in performing the various functions for which they are designed and the damages resulting from any such problem. To the extent that we contract to provide control systems in larger scale projects, the level of damages for which we may be held responsible is likely to increase. To the extent that any of our installed control systems do not perform as designed for their intended purposes, and we are held responsible for the consequences of those performance failures and resulting damages, there may be an adverse impact on our business, business reputation, revenues and profits. We do believe our control systems have so far performed as designed, and there are no claims asserted against us based on any significant, non-performance event. Notwithstanding our record, no assurance can be given that no claims will be sought in the future based on the design and performance of our control systems.

Industry and economic conditions may adversely affect the markets and operating conditions of our customers, which in turn can affect demand for our products and services and our results of operations.

We operate in a cyclical industry that is sensitive to general economic conditions in the PRC and abroad. Rapid growth in the PRC economy and urban population could lead to an increased demand for high-speed railway, urban transportation and power plants, which could in turn foster demand for control system products and services in high-speed rail transportation, urban mass transit and power sectors. Changes in market supply and demand could also have a substantial effect on our product prices, business, revenue and financial condition. Macroeconomic conditions (such as the government's announcement of economic stimulus policies to encourage the construction of public infrastructure or the termination of such policies), supply and demand imbalances and other factors beyond our control, including import and export policies, value-added tax and export taxes could have a major impact on our market share, and the demand for and prices of our products. Increased demand for rail transportation and increased operating margins may result in a larger amount of new investments in the relevant industries and increased production in the overall industry, which may cause supply to exceed demand and lead to a period of lower prices. This cycle of rising and falling demand may repeat itself. Any of these cyclical factors may adversely impact our business, financial condition and results of operations and prospects.

We are striving to expand our sales into the international market. Our overseas business extends to Southeast Asia and the Middle East area. Any economic downturn may result in reduced funding for public infrastructures including railway or urban mass transit infrastructures and a decreased demand for our transportation control system products and services in the international market. Moreover, any economic downturn may negatively impact the ability of our international customers to obtain financing, which may lead to their unwillingness to purchase our products. Therefore, the general demand for our products and their selling price could decline. Any adverse changes in the global market and economic conditions and any slowdown or recession of the global economy could have a material adverse effect on our business, financial condition, results of operations and prospects.

Increased competition from foreign and PRC domestic competitors within the industry where we operate could negatively impact our market share in the industry.

Our principal offering is a comprehensive suite of automation systems for a wide spectrum of industrial market clientele, ranging from power, chemical, petrochemical, to nuclear, metallurgy, building materials, food-beverage, pharmaceutical and other industries. Multi-national companies including Honeywell (US), Siemens (Germany), Emerson (US), ABB (Sweden), Rockwell (US), Yokogawa (Japan) and Hitachi (Japan) account for the majority of the global automation market share, and the market pattern is similar in China. Due to the limited number of domestic customers, if major international competitors increase their investments in the PRC or our targeted overseas markets or collaborate with our existing competitors, we may face even more intense competition. We may not be able to compete successfully with existing industry leaders in new business areas into which we intend to expand. This may in turn affect our business, operating results and financial condition.

We may not be able to sufficiently protect our intellectual property.

Our business primarily relies on a combination of copyright, patent, trademark and other intellectual property laws, nondisclosure agreements and other protective measures to protect our proprietary rights. As of June 30, 2020, we held 249 software copyrights, 159 authorized patents, 166 patent applications and 45 registered trademarks.

Our competitors may independently develop proprietary technology similar to ours, introduce counterfeits of our products, misappropriate our proprietary information or processes, infringe on our patents, brand name and trademarks, or produce similar products that do not infringe on our patents or successfully challenge our patents. Our efforts to defend our patents, trademarks and other intellectual property rights against competitors or other violating entities may be unsuccessful. We may be unable to identify any unauthorized use of our patents, trademarks and other intellectual property rights and may not be afforded adequate remedies for any breach. In particular, in the event that our registered patents and our applications do not adequately describe, enable or otherwise provide coverage of our technologies, samples and products, we would not be able to exclude others from developing or commercializing these technologies, samples and products.

We also utilize unpatented proprietary know-how and trade secrets and employ various methods to protect our intellectual property. We have generally entered into confidentiality agreements (which include, in the case of employees, non-competition provisions and intellectual property right ownership provisions) with our key research and development personnel. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in circumstances specified in the agreements. In the case of employees, the agreements provide that all of the technology which is conceived by the individual during the course of employment is our exclusive property. However, these agreements may not provide meaningful protection or adequate remedies in the event of unauthorized use or disclosure of our proprietary information. In addition, it is possible that third parties could independently develop information and techniques substantially similar to ours or otherwise gain access to our trade secrets.

In the event that any misappropriation or infringement of our intellectual property occurs in the future, we may need to protect our intellectual property or other proprietary rights through litigation. Litigation may divert our management's attention from our business operations and possibly result in significant legal costs, and the outcome of any litigation is uncertain. In addition, infringement of our intellectual property rights may impair the market value and share of our products, damage our reputation and adversely affect our business, financial condition and results of operations.

Our intellectual property may become obsolete and may not be able to protect us from competition.

The markets in which our businesses operate may experience rapid and significant changes due to the introduction of innovative and disruptive technologies. Our operating results depend to a significant extent on our ability to maintain our technological leadership, anticipate and adapt to changes in our markets and to optimize our cost base accordingly. Introducing new products and technologies requires a significant commitment to research and development, which in return requires expenditure of considerable financial resources that may not always result in success. Our results of operations may suffer if we invest in technologies that may not be used or integrated as expected, or are not accepted in the marketplace, or if our products, solutions or systems are not introduced to the market in a timely manner, particularly compared to our competitors, or become obsolete. Our patents and other intellectual property may not prevent competitors from independently developing or selling products and services that are similar to or duplicate our products and services.

Our acquisition strategies may not be successful, which could adversely affect our business and increase our financial expenses.

In addition to organic growth, we may supplement our business expansion through acquisitions of an operating business or specific assets. Examples of our past acquisitions are the acquisitions of Concord Group in 2011 and Bond Group in 2013, which were undertaken to accelerate the development of our mechanical and electrical solutions business in Southeast Asia and the Middle East. Implementing our acquisition strategies may expose us to the following risks, among others, which could have adverse effects on our business, financial condition, operating results and future prospects:

- unidentified or unforeseeable liabilities or risks may exist in the potential assets or business to be acquired;
- failure to assimilate acquired business and personnel into our operations or failure to realize anticipated cost savings or other synergies from the acquisition;
- incurring additional debts which could reduce our available funds for operations and other purposes as a result of increased debt repayment obligations;
- inability to retain employees;
- loss of customers; and
- diverting efforts of management and other resources.

We cannot assure you that we will be able to effectively integrate businesses we acquire or that any acquisitions will generate long-term benefits for us. Any failure to effectively integrate or benefit from acquisitions we make may have material adverse effects on our business, financial condition, operating results and future prospects.

Our revenue and net income may be materially and adversely affected by any economic slowdown in China as well as globally.

The success of our business depends on consumer spending. We currently derive a substantial majority of our revenue from China and are also expanding into international markets. As a result, our revenue and net income are impacted to a significant extent by economic conditions in China and globally, as well as economic conditions specific to infrastructural development. The global economy, markets and levels of consumer spending are influenced by many factors beyond our control, including consumer perception of current and future economic conditions, political uncertainty (including the potential impact of political and regulatory uncertainties in the United States), levels of employment, inflation or deflation, real disposable income, interest rates, taxation and currency exchange rates.

The growth of the PRC economy has slowed in recent years. There have also been concerns about the relationships among China and other Asian countries, the relationship between China and the United States, and the relationship between the United States and certain Asian countries, which may result in or intensify potential conflicts in relation to territorial, regional security and trade disputes. For instance, the United States has imposed substantial tariffs on products emanating from China, which has adversely affected the trade relationship between China and the United States. Further disruptions or continuing or worsening slowdown could significantly reduce domestic commerce in China. A further decrease in economic growth rates or an otherwise uncertain economic outlook in China or any other markets in which we may operate could have a material adverse effect on consumer spending and therefore adversely affect our business, financial condition and results of operations.

Our international operations may expose us to numerous and sometimes conflicting legal and regulatory requirements. Violation of these regulations could harm our business.

With operations in Singapore, Malaysia, Indonesia, India and the Middle East, we are subject to numerous, and sometimes conflicting, legal requirements on matters as diverse as import/export controls, trade restrictions, tariffs, taxation, sanctions, government affairs, anti-corruption, whistle blowing, internal and disclosure control obligations, data protection and privacy and labor relations and regulatory requirements that are specific to our clients' industries. Non-compliance with these regulations in the conduct of our business could result in fines, penalties, criminal sanctions against us or our officers, disgorgement of profits, prohibitions on doing business and adverse impact to our reputation. Gaps in compliance with these regulations in connection with the performance of our obligations to our clients could also result in exposure to monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to process information and allegations by our clients that we have not performed our contractual obligations. Many countries also seek to regulate the actions that companies take outside of their respective jurisdictions, subjecting us to multiple and sometimes competing legal frameworks in addition to our home country rules. Due to the varying degree of development of the legal systems of the countries in which we operate and plan to operate, local laws might be insufficient to defend us and preserve our rights. We could also be subjected to risks to our reputation and regulatory action on account of any unethical acts by any of our employees, partners or other related individuals.

We are subject to risks relating to compliance with a variety of national and local laws including multiple tax regimes, labor laws, and employee health, safety, wages and benefits laws. We may, from time to time, be subject to litigation or administrative actions resulting from claims against us by current or former employees individually or as part of class actions, including claims of wrongful terminations, discrimination, misclassification or other violations of labor law or other alleged conduct. We may also, from time to time, be subject to litigation resulting from claims against us by third parties, including claims of breach of non-compete and confidentiality provisions of our employees' former employment agreements with such third parties or claims of breach by us of their intellectual property rights. Our failure to comply with applicable regulatory requirements could have a material adverse effect on our business, results of operations and financial condition.

The audit reports included in our annual reports filed with the SEC were prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. However, because we have substantial operations within the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese government authorities, our auditor and its audit work are not currently inspected by the PCAOB. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulation Commission, or the CSRC, and the Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. In June 2019, a bill entitled as "Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act" was introduced in the US Congress. Among others, the bill requires US stock exchanges to amend their rules to prohibit foreign issuers from listing shares in the US if their financial statements are audited by public accounting firms that the PCAOB is unable to inspect. The joint statement and the bill reflect a heightened interest in an issue that has vexed U.S. regulators in recent years. On April 21, 2020, the SEC and the PCAOB issued another joint statement reiterating the greater risk that disclosures will be insufficient in many emerging markets, including China, compared to those made by U.S. domestic companies. In discussing the specific issues related to the greater risk, the statement again highlights the PCAOB's inability to inspect audit work and practices of accounting firms in China with respect to their audit work of U.S. reporting companies.

Inspections of other accounting firms that the PCAOB has conducted have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections of audit work undertaken in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors of our ordinary shares do not derive the benefits of PCAOB inspections, and may lose confidence in our reported financial information and procedures and the quality of our financial statements.

If our auditor is sanctioned or otherwise penalized by the PCAOB or the SEC as a result of failure to comply with inspection or investigation requirements, our financial statements could be determined to be not in compliance with the requirements of the U.S. Exchange Act or other laws or rules in the United States, which could ultimately result in our ordinary shares being delisted.

Ernst & Young Hua Ming LLP, our auditor, is required under U.S. law to undergo regular inspections by the PCAOB. However, without approval from the Chinese government authorities, the PCAOB is currently unable to conduct inspections of the audit work and practices of PCAOB-registered audit firms within the PRC on a basis comparable to other non-U.S. jurisdictions. Since we have substantial operations in the PRC, our auditor and its audit work are currently not fully inspected by the PCAOB.

Inspections of other auditors conducted by the PCAOB outside of China have at times identified deficiencies in those auditors' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct full inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections.

The SEC previously instituted proceedings against mainland Chinese affiliates of the "big four" accounting firms, including the affiliate of our auditor, for failing to produce audit work papers under Section 106 of the Sarbanes-Oxley Act because of restrictions under PRC law. Each of the "big four" accounting firms in mainland China agreed to a censure and to pay a fine to the SEC to settle the dispute and stay the proceedings for four years, until the proceedings were deemed dismissed with prejudice on February 6, 2019. It remains unclear whether the SEC will commence a new administrative proceeding against the four mainland China-based accounting firms. Any such new proceedings or similar action against our audit firm for failure to provide access to audit work papers could result in the imposition of penalties, such as suspension of our auditor's ability to practice before the SEC. If our independent registered public accounting firm, or its affiliate, was denied, even temporarily, the ability to practice before the SEC, and it was determined that our financial statements or audit reports were not in compliance with the requirements of the U.S. Exchange Act, we could be at risk of delisting or become subject to other penalties that would adversely affect our ability to remain listed on the Nasdaq.

In recent years, U.S. regulators have continued to express their concerns about challenges in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. More recently, as part of increased regulatory focus in the U.S. on access to audit information, on May 20, 2020, the U.S. Senate passed the Holding Foreign Companies Accountable Act, or the HFCA Act, which includes requirements for the SEC to identify issuers whose audit reports are prepared by auditors that the PCAOB is unable to inspect or investigate completely because of a restriction imposed by a non-U.S. authority in the auditor's local jurisdiction. If the HFCA Act or any similar legislation were enacted into law, our securities may be prohibited from trading on the Nasdaq or other U.S. stock exchanges if our auditor is not inspected by the PCAOB for three consecutive years, and this ultimately could result in our ordinary shares being delisted. Delisting of our ordinary shares would force our U.S.-based shareholders to sell their shares. The market prices of our ordinary shares could be adversely affected as a result of anticipated negative impacts of the HFCA Act upon, as well as negative investor sentiment towards, China-based companies listed in the United States, regardless of whether the HFCA Act is enacted and regardless of our actual operating performance.

Furthermore, on June 4, 2020, the U.S. President issued a memorandum ordering the President's Working Group on Financial Markets ("PWG") to submit a report to the President within 60 days of the memorandum that includes recommendations for actions that can be taken by the executive branch, the SEC, the PCAOB or other federal agencies and departments with respect to Chinese companies listed on U.S. stock exchanges and their audit firms, in an effort to protect investors in the United States. On August 6, 2020, PWG released its Report on Protecting United States Investors from Significant Risks from Chinese Companies ("PWG Report"). The PWG Report includes five recommendations for the Securities and Exchange Commission. In particular, to address companies from jurisdictions, such as China, that do not provide the PCAOB with sufficient access to fulfill its statutory mandate, the PWG recommends enhanced listing standards on U.S. exchanges. This would require, as a condition to initial and continued exchange listing, PCAOB access to work papers of the principal audit firm for the audit of the listed company. Companies unable to satisfy this standard as a result of governmental restrictions on access to audit work papers and practices in these countries may satisfy this requirement by providing a co-audit from an audit firm with comparable resources and experience where the PCAOB determines it has sufficient access to audit work papers and practices to conduct an appropriate inspection of the co-audit firm. The PWG Report permits the new listing standards to provide for a transition period until January 1, 2022 for listed companies. The recommendations are to include actions that could be taken under current laws and rules as well as possible new rulemaking recommendations. Any resulting actions, proceedings or new rules could adversely affect the listing and compliance status of China-based issuers listed in the United States, such as our company, and may have a material and adverse impact on the trading prices of the securities of such issuers, including our ordinary shares, and substantially reduce or effectively terminate the trading of our ordinary shares in the United States.

We are subject to litigation risks.

In our ordinary course of business, we may be involved in claims relating to our employees, customers or suppliers or other third parties from time to time. In addition, claims may be brought against us for alleged defective or incomplete work, liabilities for defective products, delayed or improper delivery of products and services, personal injuries and deaths, breaches of warranty, delayed payments to our suppliers, labor disputes or late completion of projects or other contracts. If we were found to be liable for any of the claims, we would have to incur additional costs. Both claims brought against us and by us, if not resolved through negotiation, may be subject to lengthy and expensive litigation or arbitration proceedings. Charges associated with claims brought against us and write-downs associated with claims brought by us could have a material adverse impact on our financial condition, results of operations and cash flow. Moreover, legal proceedings resulting in judgments or findings against us may harm our reputation and damage our prospects for future contract awards. In addition, any legal proceedings may divert our management's attention from our business.

Dispute in connection with the ownership of Ace Lead Profits Limited ("Ace Lead") may adversely impact us.

We were made aware of a shareholders dispute regarding ownership of one of the principal shareholders. In August 2016, Mr. Changli Wang, the then sole shareholder of Ace Lead, one of our record shareholders, transferred his single share in Ace Lead to Mr. Baiqing Shao for a nominal consideration. As of the date hereof, Ace Lead owns 4,144,223 ordinary shares of our company, representing 6.9% of the outstanding shares of our company. We were recently notified that Mr. Wang indicated that, as Mr. Shao had stepped down as the chairman and chief executive officer of our company since July 2020, he should no longer be entitled to any share in Ace Lead and he should immediately transfer the share in Ace Lead to one or more persons designated by Mr. Wang. As of the date of this annual report, Mr. Shao has not transferred the share in ACE Lead to any designees of Mr. Wang. We cannot predict the outcome of the dispute. If Mr. Shao refuses to transfer the share in ACE Lead to a person designated by Mr. Wang, the dispute could escalate and litigation may ensue between Mr. Shao and Mr. Wang, and our company may become involved. Any escalation of this dispute, including potential litigation, may cause us to incur significant time, resources and cost if we were to become involved.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud.

We are subject to reporting obligations under the U.S. securities laws. Under these laws, we are required to include in our annual report on Form 20-F a management report on our internal control over financial reporting containing management's assessment of the effectiveness of our internal control over financial reporting. In addition, under the U.S. securities laws, an independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting.

As reported in this annual report on Form 20-F, our management has concluded that our internal control over financial reporting was effective as of June 30, 2020, and our independent registered public accounting firm has issued an attestation report regarding the effectiveness of our internal control over financial reporting as of June 30, 2020. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ordinary shares. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to continue to comply with these and other requirements of the U.S. securities laws.

Our employees or third parties may commit fraud or other misconduct that is beyond our control despite the internal control measures in place.

Fraud and other misconduct which may be committed by our employees or third parties can be difficult to prevent or deter despite our internal control measures in place. Such illegal actions could subject us to financial losses and harm our business and operations. For example, if our employees or any third parties we cooperate with commit any misconduct and cause economic losses to our customers or project owners, we may be held responsible for compensating the harmed parties. In addition to potential financial losses, improper acts of our employees or third parties could subject us to third-party claims, regulatory investigations and reputational losses. Any fraud or other misconduct committed by our employees or third parties could have an adverse effect on our reputation, business, financial condition and results of operations.

We may be exposed to liabilities under the Foreign Corrupt Practices Act, and other anti-corruption laws and sanctions-related laws and regulations, and any determination that we violated these laws could have a material adverse effect on our business.

We are subject to the Foreign Corrupt Practice Act, or FCPA, a U.S. federal law which prohibits improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute, for the purpose of obtaining or retaining business. We have operations, agreements with third parties, and substantially all of our sales outside of the United States, mostly in China, but also in Southeast Asia and the Middle East. The PRC and other governments in the markets we operate also strictly prohibit bribery of government officials. Our activities in China, in particular, create the risk of unauthorized payments or offers of payments by our employees, consultants, sales agents, or distributors, even though they may not always be subject to our control. It is our policy to implement safeguards to discourage these practices by our employees. However, our existing safeguards and any future improvements may prove to be less than effective, and our employees, consultants, sales agents, or distributors may engage in conduct for which we might be held responsible. Violations of the FCPA, Chinese anti-corruption laws and other applicable anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the U.S. government may seek to hold Hollysys liable for successor liability FCPA violations committed by companies in which we invest or which we acquire.

In addition, as a result of our overseas operations, we may be exposed to risks arising from economic sanctions imposed by the United States, European Union and other countries or regions against investments and commercial activities with individuals, entities and governments in various regions and countries. While we are in the process of strengthening our compliance program, we may not have control over third parties who may purchase products from us for use in countries and regions subject to sanctions. This may expose us to potential sanctions-related liabilities and have a material adverse effect on our business and reputation.

An Outbreak of Disease or Similar Public Health Threat, or Fear of Such an Event, Could Have a Material Adverse Impact on the Company's Business, Operating Results and Financial Condition.

These types of events could disrupt business and otherwise materially adversely affect business and financial condition. With operations in China and other countries worldwide, we are subject to numerous risks outside of our control, including risks arising from natural disasters, such as fires, earthquakes, hurricanes, floods, tornadoes, unusual weather conditions, pandemic outbreaks and other global health emergencies, terrorist acts or disruptive global political events, or similar disruptions that could materially adversely affect business and financial performance.

Any public health emergencies, including a real or potential global pandemic such as those caused by the avian flu, SARS, Ebola, coronavirus, or even a particularly virulent flu, could decrease demand for the Company's products and services. The recent outbreak of COVID-19, which has been declared by the World Health Organization to be a "pandemic", has spread to many countries and is impacting worldwide economic activity. A public health epidemic, including COVID-19, poses the risk that we or our employees, suppliers, consumers, and other business partners may be prevented from conducting business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities. Given the interconnectivity of global supply chain and global economy, and the possible rate of future global transmission, the impact of COVID-19 may extend beyond the areas which are currently known to be impacted. While we have seen gradual recovery of our overall business as well as the supply chain, customer bidding, project execution and cash collection resulting from improving health statistics in China since March 2020, it is still not possible at this time to estimate the impact of COVID-19 for our oversea business due to the continued spread of COVID-19 in south east Asia and south Asia. The measures taken by the governments of countries affected could disrupt the demand from our customers, our sales efforts, the delivery of our products and services, reduce our customers' ability to pay and adversely impact our oversea business, financial condition and results, or results of operations.

Our business is subject to risks associated with political, economic, financial or other conditions or developments in various jurisdictions, including the United States.

We sell our products to various overseas jurisdictions. Our activities may be impacted by any increase in the use of export control restrictions and sanctions to target certain countries and companies, any expansion of the extraterritorial jurisdiction of export control laws, or complete or partial ban on technology products sales to certain companies could impact not only our ability to continue supplying products to certain customers or source products from certain suppliers. While we take precautions to prevent our products or services to be provided or sourced in violation of these laws, we cannot guarantee that the precautions we take will always be effective to ensure continued compliance with these laws and regulations, including if purchasers of our products bring our products and services into sanctioned countries without our knowledge, or there is a further tightening of export control measures on our customers or supplies. For example, any violations of sanctions or export control laws in the United States can result in significant fines or penalties, including criminal penalties for willful conduct. Risks of cross-border sales, including those related export and import control, economic sanctions and international trade, could negatively affect our business and financial status and therefore the market value of your investment.

RISKS RELATED TO DOING BUSINESS IN CHINA

Changes in the economic and political policies of the PRC government could have a material and adverse effect on our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.

We conduct a substantial portion of our business in China through our subsidiaries. Accordingly, our results of operations, financial condition and prospects are to a significant extent affected by economic and political developments in China. In particular, the PRC government continues to exercise significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in reforming the economy. These economic reform measures may be adjusted or modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall economy of the PRC, but may have an adverse effect on us.

Although China is committed to expanding its energy production with nuclear power and building a high-speed railway network, both these industries have experienced various setbacks due to higher than expected accidents. For example, the meltdown at the Fukushima Daiichi nuclear power plant in Japan following an earthquake and tsunami in 2011 has caused a slowdown or cessation in the development of nuclear power plants in some countries. In addition, a fatal high-speed railway accident near Wenzhou, China in 2011, caused a slowdown in the development of high speed rail projects in China. The future growth rate of these two sectors may not be as fast as the market previously had expected and our business in these sectors may decline. Moreover, future accidents in these two sectors could adversely affect these sectors and our business. The PRC has been one of the world's fastest growing economies as measured by GDP in recent years. However, economic activity in the PRC has slowed down recently and it may not return to levels of previous years. In an effort to support the growth of the Chinese economy, the PRC government has implemented and may continue to implement various monetary and other economic measures to expand investments in infrastructure projects, increase liquidity in the credit markets and encourage employment. However, there is no assurance that these monetary and economic measures will succeed. If the Chinese economy continues to experience a slowdown or experiences a recession, there may be a delay or reduction in, or cancellation of, projects available to us and demand for the services and products we provide in our various business segments may grow at a lower-than-expected rate or otherwise decrease. Furthermore, we cannot assure you that we will be able to make timely adjustments to our business and operational strategies so as to capture and benefit from the potential business opportunities presented to us as a result of the changes in the economic and other policies of the PRC government. Also, the PRC government will continue to make adjustments to its economic policy objectives and measures in the future, which may include or result in a significant reduction in its budget for investments in infrastructure and other projects. This could have an adverse effect on our business and operations. Moreover, unfavorable financing and other economic conditions for the industries that we serve could negatively impact our customers and their ability or willingness to fund capital expenditures in the future or pay for past services.

The ongoing trade war between China and the United States, and its potential escalation internationally, may have an adverse effect on our business operations and revenues.

In 2018, the U.S. government imposed new or higher tariffs on specified products imported from China to penalize China for what it characterizes as unfair trade practices, and threatened to impose additional tariffs on Chinese imports. The Chinese government responded by imposing, and proposing to impose additional, new or higher tariffs on specified products imported from the United States. On September 17, 2018, U.S. President Donald Trump announced that the tariff rate of 10% on a wide range of Chinese imports would increase to 25% on January 1, 2019. China responded with either 5% or 10% tariffs on $60 billion of US goods, effective on September 24, 2019. After that, two countries had multiple rounds of talks but failed to reach a final agreement. On August 1, 2019, President Trump announced that US will impose 10% tariffs on another $300 billion of Chinese goods starting September 1, 2019. Moreover, on August 5, 2019, the U.S. Department of Treasury officially declared China as a currency manipulator. On August 23, 2019: Chinese Ministry of Finance announced new rounds of retaliative tariffs on $75 billion worth of U.S. goods, effective September 1, 2019. Under the phase one trade deal agreed with the US by the end of 2019, China released additional exemptions from tariffs and agreed to purchase at least an additional $200 billion worth of U.S. goods and services by the end of 2021. It is uncertain whether there will be any further material changes to both countries' tariff policies. Any further actions to increase existing tariffs or impose additional tariffs could result in an escalation of the trade conflict, which would have an adverse effect on the global economy.

Specifically, the current and future actions or escalations by either the United States or China that affect trade relations may cause or contribute to further slowdowns in Chinese economic growth, the depreciation of the RMB and global economic turmoil, which has the potential to adversely impact our supply chain for our products and potentially have a material adverse effect on our business and results of operations, and we cannot provide any assurance as to whether such actions will occur or the form that they may take.

The PRC legal system is still evolving. There exist uncertainties as to the interpretation and enforcement of PRC laws, and PRC laws are different from those of common law countries.

Our activities are primarily conducted in the PRC, hence our business operations are regulated primarily by PRC laws, rules and regulations. PRC laws and regulations are based on written statutes, and past court judgments may have limited value as precedents. Because PRC laws and regulations are still evolving, and because of the limited number and non-binding nature of published cases, there exist uncertainties about their interpretation and enforcement. In particular, because these laws, rules and regulations are relatively new, and because of the limited number of published decisions and the non-precedential nature of these decisions, and because the laws, rules and regulations often give the relevant regulator significant discretion in how to enforce them, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. Therefore, it is possible that our existing operations may be found not to be in full compliance with relevant laws and regulations in the future. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, financial condition and results of operations.

PRC regulations regarding acquisitions impose significant regulatory approval and review requirements, which could make it more difficult for us to pursue growth through acquisitions.

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, or the MOFCOM, the State-Owned Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration for Industry and Commerce (now known as State Administration for Market Regulation), the China Securities Regulatory Commission, and the State Administration of Foreign Exchange, or the SAFE, jointly adopted the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, which came into effect on September 8, 2006 and were amended on June 22, 2009 by the MOFCOM. The M&A Rules, and other recently adopted regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. In addition, in 2011, the General Office of the State Council promulgated a *Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, also known as *Circular 6*, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, MOFCOM promulgated the *Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors*, effective 2011, to implement Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns.

In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts, may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected, which creates significant uncertainty as to whether transactions that we may undertake would subject us to fines or other administrative penalties and negative publicity and whether we will be able to complete strategic acquisitions in the future in a timely manner or at all.

We may be subject to fines and legal sanctions imposed by SAFE or other Chinese government authorities and our ability to further grant restricted shares or share options to, and to adopt additional share incentive plans for, our directors and employees may be restricted if we or the participants of our share incentive plans fail to comply with PRC regulations relating to restricted shares or share options granted by offshore special purpose companies or offshore listed companies to PRC participants.

Pursuant to the *Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles* promulgated by the SAFE, on July 4, 2014, or SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. In the meantime, our directors, executive officers and other employees who are PRC citizens or who are non-PRC citizens residing in the PRC for a continuous period of not less than one year, subject to limited exceptions, and who have been granted restricted shares or share options, by us may follow the *Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company*, or SAFE Circular 7, issued by SAFE in February 2012, to apply for the foreign exchange registration. According to the SAFE Circular 7, employees, directors, supervisors and other management members participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in the PRC for a continuous period of not less than one year, subject to limited exceptions, are required to register with SAFE through a domestic qualified agent, which may be a PRC subsidiary of the overseas listed company, and complete certain other procedures. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit the ability to make payment under the relevant equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprises in China and limit our wholly-foreign owned enterprises' ability to distribute dividends to us. We also face regulatory uncertainties under PRC law that could restrict our ability or the ability of our overseas listed subsidiaries to adopt additional equity incentive plans for our directors and employees who are PRC citizens or who are non-PRC residents residing in the PRC for a continuous period of not less than one year, subject to limited exceptions.

In addition, the State Administration for Taxation has issued circulars concerning share options and restricted shares. Under these circulars, employees working in the PRC who exercise share options, or whose restricted shares vest, will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees related to their share options or restricted shares. Although we currently withhold income tax from our PRC employees in connection with their exercise of options and the vesting of their restricted shares, if the employees fail to pay, or our PRC subsidiaries fail to withhold, their income taxes according to relevant laws, rules and regulations, our PRC subsidiaries may face sanctions imposed by the tax authorities.

Government control over the conversion of foreign exchange may limit our ability to utilize our revenues effectively and affect the value of your investment.

The PRC government imposes control on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE. However, approval from or registration with appropriate government authorities is required where RMB are to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

Fluctuations in exchange rates could harm our business and the value of our shares.

The value of our shares will be indirectly affected by the foreign exchange rate between U.S. dollars and those currencies in which our sales may be denominated. Because a large portion of our earnings and cash assets are denominated in RMB, SGD and MYR, and our financial results are reported in U.S. dollars, fluctuations in the exchange rate between the U.S. dollar and RMB, SGD and MYR will affect our balance sheet and our earnings per share as stated in U.S. dollars. In addition, appreciation or depreciation in the value of the RMB, SGD and MYR relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars as well as earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. The effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect us.

Pursuant to SAFE Circular 37, any PRC citizens or residents, including both PRC institutions and individual residents, are required to register with the local SAFE branch before making contributions to a company set up or controlled by PRC residents outside of the PRC for the purpose of overseas investment or financing with their legally-owned domestic or offshore assets or interests, referred to in this circular as a "special purpose vehicle." In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. In February 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, which became effective on June 1, 2015. This notice has amended SAFE Circular 37, requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

We attempt to comply, and attempt to ensure that our shareholders and beneficial owners of our shares who are subject to these rules comply, with the relevant requirements. We cannot provide any assurance that our shareholders and beneficial owners of our shares who are PRC residents have complied or will comply with the requirements imposed by Circular 37 or other related rules. Any failure by any of our shareholders and beneficial owners of our shares who are PRC residents to comply with relevant requirements under this regulation could subject such shareholders, beneficial owners and us to fines or sanctions imposed by the PRC government, including limitations on our relevant subsidiary's ability to pay dividends or make distributions to us and our ability to increase our investment in China, or other penalties that may adversely affect our operations. These risks may have a material adverse effect on our business, financial condition and results of operations.

The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may increase our labor costs, impose limitations on our labor practices and adversely affect our business and our results of operations.

The PRC's *Labor Contract Law* contains specific provisions related to fixed-term employment contracts, part-time employment, probation, consultation with labor unions and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining, which together represent enhanced enforcement of labor laws and regulations. According to the *Labor Contract Law*, an employer is obliged to sign an unfixed-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unfixed term, with certain exceptions. The employer must pay economic compensation to an employee where a labor contract is terminated or expires in accordance with the *Labor Contract Law*, except for certain situations which are specifically regulated. In addition, the government has issued various labor-related regulations to further protect the rights of employees. According to such laws and regulations, employees are entitled to annual leave ranging from five to 15 days and are able to be compensated for any untaken annual leave days in the amount of three times their daily salary, subject to certain exceptions. In the event that we decide to change our employment or labor practices, the *Labor Contract Law* and its implementation rules may limit our ability to effect those changes in a manner that we believe to be cost-effective. In addition, as the interpretation and implementation of these new regulations are still evolving, our employment practices may not be at all times deemed in compliance with the new regulations. We could be subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, as a result of which our business and financial conditions may be adversely affected.

Dividends payable to our foreign investors and gains on the sale of our shares by our foreign investors may become subject to PRC tax.

Under the *Enterprise Income Tax Law* and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable by a PRC resident enterprise to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. Similarly, any gain realized on the transfer of the shares of a PRC resident enterprise by such investors is also subject to PRC tax at a current rate of 10%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our ordinary shares, and any gain realized from the transfer of our ordinary shares, would be treated as income derived from sources within the PRC and would as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of our ordinary shares by such investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions. If we or any of our subsidiaries established outside the PRC are considered a PRC resident enterprise, it is unclear whether holders of our ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends payable to our non-PRC investors, or gains from the transfer of our ordinary shares by such investors, are deemed to be income derived from sources within the PRC and thus subject to PRC tax, the value of your investment in our ordinary shares may decline significantly.

We rely on dividends and other distributions on equity paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries to make payments to us could restrict our ability to satisfy our liquidity requirements.

We are a holding company incorporated in the BVI. We generally rely on our subsidiaries in China to provide us with cash flow and to meet our other obligations. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits upon satisfaction of relevant statutory conditions and procedures, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside a certain amount of its after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. Furthermore, if our subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. The inability of our subsidiaries to distribute dividends or other payments to us could restrict our ability to satisfy our liquidity requirements.

We may be treated as a resident enterprise for PRC tax purposes under the Enterprise Income Tax Law, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.

Under *the Enterprise Income Tax Law* and its implementing rules, enterprises established under the laws of jurisdictions outside of China with "de facto management bodies" located in China may be considered PRC tax resident enterprises for tax purposes and may be subject to the PRC enterprise income tax at the rate of 25% on their global income. "De facto management body" refers to a managing body that exercises substantive and overall management and control over the production and business, personnel, accounting books and assets of an enterprise. The State Administration of Taxation, or the SAT, issued the *Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies*, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by foreign enterprises or individuals, the determining criteria set forth in Circular 82 may reflect the SAT's general position on how the "de facto management bodies" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises. If we were to be considered a PRC resident enterprise, we would be subject to PRC enterprise income tax at the rate of 25% on our global income. In such case, our profitability and cash flow may be materially reduced as a result of our global income being taxed under the *Enterprise Income Tax Law*. On July 27, 2011, the SAT issued *Administrative Measures of Enterprise Income Tax of Chinese-controlled Offshore Incorporated Resident Enterprises (Trial)*, or Bulletin 45, which became effective on September 1, 2011, amended on April 14, 2015 and partially replaced by *Announcement of State Administration of Taxation on Matters Relating to Chinese Tax Resident Identity Certificates* which to become effective on October 1, 2016, to provide further guidance on the implementation of Circular 82. Bulletin 45 clarifies certain issues related to determining PRC resident enterprise status and post-determination administration. Bulletin 45 specifies that when provided with a copy of a Chinese tax resident determination certificate issued by the competent tax authorities from an offshore incorporated PRC resident enterprise, the payer should not withhold tax when paying PRC-sourced dividends, interest and royalties to the offshore incorporated PRC resident enterprise. On January 29, 2014, the SAT further issued *Announcement on Determination of Resident Enterprises under De Facto Management Body Standard*, or Bulletin 9, which delegates the determination of the status of offshore incorporated PRC resident enterprise to the provincial-level tax authorities. Bulletin 9 is applicable to the enterprise income tax filings for 2013 and onwards. Although Circular 82 applies only to offshore enterprises controlled by PRC enterprises or PRC corporate groups and not those controlled by PRC individuals or non-PRC persons, the determining criteria set forth in Circular 82 may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax residency status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals or foreign enterprises. We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management bodies".

We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing and withholding or tax payment obligations with respect to any internal restructuring, and our PRC subsidiaries may be requested to assist in the filing. Any PRC tax imposed on a transfer of our shares not through a public stock exchange, or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in our company.

We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a PRC establishment of a non-PRC company.

On February 3, 2015, the State Administration of Taxation issued the *Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises*, or Bulletin 7, which replaced or supplemented certain previous rules under the *Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises*, or Circular 698, issued by the State Administration of Taxation, on December 10, 2009. Pursuant to Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if the arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from this indirect transfer may be subject to PRC enterprise income tax.

According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment or a place of business in China, immoveable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, factors to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise directly or indirectly derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income mainly derives from China, directly or indirectly; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the foreign income tax liabilities arising from the indirect transfer of PRC taxable assets; the replicability of the transaction by direct transfer of PRC taxable assets; and the applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment or place of business, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immoveable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payor fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where the shares were acquired from a transaction through a public stock exchange.

There are uncertainties as to the application of Bulletin 7. Bulletin 7 may be determined by the tax authorities to be applicable to some of our offshore restructuring transactions or sale of the shares of our offshore subsidiaries or investments where PRC taxable assets are involved. The transferors and transferees may be subject to the tax filing and withholding or tax payment obligation, while our PRC subsidiaries may be requested to assist in the filing. Furthermore, we, our non-resident enterprises and our PRC subsidiaries may be required to spend valuable resources to comply with Bulletin 7 or to establish that we, our non-resident enterprises and our PRC subsidiaries should not be taxed under Bulletin 7, for our previous and future restructuring or disposal of shares of our offshore subsidiaries, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Circular 698/Bulletin 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Circular 698/Bulletin 7, our income tax costs associated with potential acquisitions or disposals will increase, which may have an adverse effect on our financial condition and results of operations.

Any loss of or reduction in the preferential tax treatment and VAT refunds and government subsidies we currently enjoy in the PRC or our non-compliance with the relevant PRC tax laws and regulations may negatively affect our financial condition and results of operations.

We benefit from tax incentives and receive government grants. As of the date of this annual report, Beijing Hollysys and Hangzhou Hollysys are recognized as high and new technology enterprises, or the HNTE(s), by the PRC government, which entitle each of them to a reduced income tax rate of 15% (compared to the statutory income tax rate of 25%). The qualification as an HNTE is subject to annual evaluation and a three-year review by the relevant authorities in the PRC. In order to maintain such qualifications and the preferential tax rates, these subsidiaries must submit a review application to relevant agencies. The HNTE qualification of these subsidiaries will expire in 2020, as the case may be. We are in the process of applying for the renewal of such preferential tax treatments before expiration. However, we cannot assure you that any of our subsidiaries that currently qualify as HNTEs will continue to qualify for such status in the future. If those subsidiaries fail to maintain their HNTE qualifications or renew these qualifications when the relevant term expires, their applicable income tax rates would increase to 25%, which could have a material adverse effect on our financial condition and results of operations. Moreover, the PRC government could eliminate any of these preferential tax treatments before their scheduled expiration.

In addition, we received VAT refunds and government subsidies of approximately $27.8 million in the fiscal year ended June 30, 2020. The state tax bureaus in China provide refunds out of the value added tax, which we refer to as VAT, they collect in order to encourage the research and development efforts made by certain qualified enterprises. The local governments in China also provide financial subsidies to encourage research and development efforts made by certain qualified enterprises. Some of our PRC subsidiaries have received such refunds and subsidies. The amounts of and conditions attached to these grants were determined at the sole discretion of the relevant governmental authorities. We cannot assure you that we will be eligible to continue to receive these government grants or that the amount of any such grants will not be reduced in the future, and even if we continue to be eligible to receive these grants, we cannot guarantee that any conditions attached to the grants will be as favorable to us as they have historically been.

Furthermore, we are subject to periodic examinations on our fulfillment of tax obligations under the PRC tax laws and regulations by PRC tax authorities. If we fail to fulfill our tax obligations for any reasons, we may be subject to fines, other penalties or actions upon examinations by PRC tax authorities and our business, financial condition and results of operations and our reputation may be adversely affected.

RISKS RELATED TO OUR SHARES

The market price of our ordinary shares is volatile, leading to the possibility of its value being depressed at a time when you want to sell your holdings.

The market price of our ordinary shares has been volatile, and this volatility may continue. From January 1, 2019 through August 31, 2020 the closing price of our ordinary shares on the NASDAQ Global Select Market has ranged from a high of $23.25 to a low of $9.83. Numerous factors, many of which are beyond our control, may cause the market price of our ordinary shares to fluctuate significantly. These factors include, among others:

- our earnings releases, actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;
- changes in financial estimates by us or by any securities analysts who might cover our share;
- speculation about our business in the press or the investment community;
- significant developments relating to our relationships with our customers or suppliers;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in our industry;
- customer demand for our services and products;
- investor perceptions of our industry in general and our company in particular;
- the operating and share performance of comparable companies;
- general economic conditions and trends;
- major catastrophic events;
- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
- changes in accounting standards, policies, guidance, interpretation or principles;
- loss of external funding sources;
- sales of our ordinary shares, including sales by our directors, officers or significant shareholders;
- additions or departures of key personnel; and
- investor perception of litigation, investigation or other legal proceedings involving us or certain of our individual shareholders or their family members.

Securities class action litigation is often instituted against companies following periods of volatility in their share price. This type of litigation could result in substantial costs to us and divert our management's attention and resources. Moreover, securities markets may from time to time experience significant price and volume fluctuations for reasons unrelated to operating performance of particular companies. For example, in December 2018, major stock indexes fell precipitously, with major stock averages recording their worst December performance since 1931. In particular, the S&P 500 Index fell approximately 9% from December 1, 2018 to December 31, 2018. These market fluctuations may adversely affect the prices of our ordinary shares and other interests in our company at a time when you want to sell your investment in us.

Share prices of companies with business operations primarily in China have fluctuated widely in recent years, and the trading prices of our ordinary shares are likely to be volatile, which could result in substantial losses to investors.

The performance and fluctuation of the market prices of other China-based, U.S.-listed companies may affect the volatility in the price of and trading volume for our ordinary shares. In recent years, a number of PRC-based companies have listed their securities, or are in the process of preparing for listing their securities, on U.S. stock markets. Some of these companies have experienced significant volatility, including significant price declines following their initial public offerings. The trading performances of the securities of these PRC-based companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in the United States and consequently may impact the trading performance of our ordinary shares. These broad market and industry factors may significantly affect the market price and volatility of our ordinary shares, regardless of our actual operating performance.

We are a "foreign private issuer," and have disclosure obligations that are different than those of other U.S. domestic reporting companies so you should not expect to receive the same information about us at the same time as a U.S. domestic reporting company may provide. Furthermore, if we lose our status as a foreign private issuer, we would be required to comply fully with the reporting requirements of the Exchange Act applicable to U.S. domestic issuers and would incur significant operational, administrative, legal and accounting costs that we would not incur as a foreign private issuer.

We are a foreign private issuer and, as a result, we are not subject to certain of the requirements imposed upon U.S. domestic issuers by the SEC. For example, we are not required to issue quarterly reports or proxy statements. Also, we are allowed four months to file our annual report with the SEC. We are not required to disclose certain detailed information regarding executive compensation that is required from U.S. domestic issuers. Further, our directors and executive officers are not required to report equity holdings and transactions in our equity under Section 16 of the Securities Act. As a foreign private issuer, we are also exempt from the requirements of Regulation FD (Fair Disclosure) which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. We are, however, still subject to the anti-fraud and anti-manipulation rules of the SEC, such as Rule 10b-5. Since many of the disclosure obligations required of us as a foreign private issuer are different than those required by other U.S. domestic reporting companies, our shareholders should not expect to receive information about us in the same amount and at the same time as information is received from, or provided by, other U.S. domestic reporting companies. We are liable for violations of the rules and regulations of the SEC which do apply to us as a foreign private issuer. Violations of these rules could affect our business, results of operations and financial condition.

If we lose our status as a foreign private issuer at some future time, we will be required to comply fully with the reporting requirements of the Exchange Act applicable to U.S. domestic issuers and would incur significant operational, administrative, legal and accounting costs that it would not incur as a foreign private issuer.

If we fail to comply with the continued listing requirements of NASDAQ, we would face possible delisting, which would result in a limited public market for our shares and make obtaining future debt or equity financing more difficult for us.

Our ordinary shares are traded and listed on the Nasdaq Global Select Market under the symbol "HOLI." The ordinary shares may be delisted if we fail to maintain certain listing requirements of the Nasdaq Stock Market, or NASDAQ.

We cannot ensure you that we will continue to comply with the requirements for continued listing on The NASDAQ Global Select Market in the future. If our shares lose their status on The NASDAQ Global Select Market and we are not successful in obtaining a listing on The NASDAQ Capital Market, our shares would likely trade in the over-the-counter market. If our shares were to trade on the over-the-counter market, selling our shares could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and security analysts' coverage of us may be reduced. In addition, in the event our shares are delisted, broker-dealers have certain regulatory burdens imposed upon them, which may discourage broker-dealers from effecting transactions in our shares, further limiting the liquidity of our shares. These factors could result in lower prices and larger spreads in the bid and ask prices for our shares. Such delisting from The NASDAQ Global Select Market and continued or further declines in our share price could also greatly impair our ability to raise additional necessary capital through equity or debt financing, and could significantly increase the ownership dilution to shareholders caused by our issuing equity in financing or other transactions.

As a foreign private issuer, we are permitted to rely on exemptions from certain NASDAQ corporate governance standards applicable to domestic U.S. issuers. This may afford less protection to holders of our securities.

We are exempted from certain corporate governance requirements of the Nasdaq Stock Market by virtue of being a foreign private issuer. As a foreign private issuer, we are permitted to follow the governance practices of our home country, the BVI in lieu of certain corporate governance requirements of NASDAQ. As result, the standards applicable to us are considerably different than the standards applied to domestic U.S. issuers. For instance, we are not required to:

- have a majority of the board be independent (although all of the members of the audit committee must be independent under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act);
- have a compensation committee and a nominating committee to be comprised solely of "independent directors; and
- hold an annual meeting of shareholders no later than one year after the end of the Company's fiscal year-end.

As discussed elsewhere in this Annual Report, we have relied on and intend to continue to rely on some of these exemptions. As a result, our shareholders may not be provided with the benefits of certain corporate governance requirements of the Nasdaq Stock Market.

You may have difficulty enforcing judgments obtained against us.

We are a BVI company and substantially all of our assets are located outside of the United States. A substantial portion of our current business operations are conducted in the PRC. In addition, almost all of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts including judgments based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, many of whom are not residents in the United States and whose assets are located in significant part outside of the United States. The courts of the BVI would recognize as a valid judgment, a final and conclusive judgment in person is obtained in the federal or state courts in the United States against the Company under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the BVI, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the BVI, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the BVI and (f) there is due compliance with the correct procedures under the laws of the BVI. In addition, there is uncertainty as to whether the courts of the BVI or the PRC, respectively, would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state.

We may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequences to U.S. shareholders.

We believe that we currently are not considered a “passive foreign investment company,” or PFIC, for United States federal income tax purposes. However, each year we must make a separate determination as to whether we are a PFIC. We cannot assure you that we will not be a PFIC for our future tax years. If a non-U.S. corporation either (i) has at least 75% of its gross income is passive income for a tax year or (ii) has at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a tax year) attributable to assets that produce or are held for the production of passive income, then the non-U.S. corporation will be deemed a PFIC. The market value of our assets may be determined to a large extent by the market price of our ordinary shares. If we are treated as a PFIC for any tax year during which U.S. shareholders hold ordinary shares, certain adverse United States federal income tax consequences could apply to such U.S. holders.

The provisions in our Amended and Restated M&A and terms of our Rights Plan may discourage, delay or prevent a change of control of our company or changes in our management. As a result, our shareholders may be limited in their ability to obtain a premium for their shares.

Our Amended and Restated M&A authorizes our Board to issue up to 90,000,000 preferred shares without any further action by our shareholders, which could delay, discourage, prevent or make it more costly to acquire or effect a change-in-control. In addition, on August 27, 2010, our Board adopted a rights plan (the “Rights Plan”) that provides for the issuance of one right (a “Right”) for each of our outstanding ordinary shares. In September 2020, we adopted an amended and restated rights plan (the “Amended and Restated Rights Plan”) which amends and restates the Rights Plan in its entirety. The Amended and Restated Rights Plan extends the expiration date of the Rights Plan from September 27, 2020 to September 27, 2030, decreases the threshold of the triggering event from 20% to 15%, and includes certain modernizing changes to account for certain synthetic equity positions when determining the beneficial ownership of our shareholders. The Rights are designed to assure that all of our shareholders receive fair and equal treatment in the event of any proposed takeover and to guard against partial tender offers, open market accumulations, undisclosed voting arrangements and other abusive or coercive tactics to gain control of the Company or our Board without paying all shareholders a control premium. The Rights may cause substantial dilution to a person or group that acquires 15% or more of the aggregate total of outstanding ordinary shares on terms not approved by our Board.

The provisions in our Amended and Restated M&A and the terms of our Amended and Restated Rights Plan could prevent our shareholders from recognizing a gain in the event that a favorable offer is extended and could materially and negatively affect the market price of our ordinary shares, even if you or our other shareholders believe that such actions are in the best interests of us and our shareholders. As a result, our shareholders may be limited in their ability to obtain a premium for their shares. The Amended and Restated Rights Plan, however, should not interfere with any offer approved by our Board. In addition, the Amended and Restated Rights Plan does not prevent our Board from considering any offer that it considers to be in the best interest of the shareholders.

We have granted employee stock options and other share-based awards in the past and are likely to continue to do so in the future. Our share-based compensation schemes may have an adverse effect on our results of operations and dilute the ownership interests of our shareholders.

We have granted share-based compensation awards, including share options, restricted shares and restricted share units, to various employees, key personnel and other non-employees to incentivize performance and align their interests with ours. As a result of these grants and potential future grants, we have incurred in and expect to continue to incur share-based compensation expenses in the future. For example, in the fiscal years ended June 30, 2018, 2019 and 2020, we recorded share-based compensation expenses of $1.2 million, $0.2 million and $0.4 million, respectively. The amount of these expenses is based on the fair value of the share-based awards. We account for compensation costs for share-based compensation awards and recognize expenses in our consolidated statements of comprehensive income in accordance with the relevant rules under U.S. GAAP. Our share-based compensation expense may increase in future periods, as we adopt new equity compensation plans to incentivize our employees and directors to grow our business. In addition, any additional securities issued under share-based compensation schemes will dilute the ownership interests of our shareholders.

We may determine to cease paying dividends in the future.

Our Board decides if and when our Company will pay cash dividends. On August 11, 2016, our Board approved a regular cash dividend policy pursuant to which future cash dividends are expected to be paid to holders of the Company’s ordinary shares on an annual basis out of funds legally available for such purpose. While cash dividends have been paid in each of 2016, 2017, 2018 and 2019, the declaration and payment of future dividends will be at the discretion of our Board, and there can be no assurance that cash dividends will be paid in the future. Our future payment of dividends will depend upon many factors, including our financial conditions, earnings, capital requirements of its businesses, legal requirements, regulatory constraints, industry practice, and other factors that our Board deems relevant.

The laws of the British Virgin Islands provide limited protection for minority shareholders, so minority shareholders will have limited or no recourse if they are dissatisfied with the conduct of our affairs.

Under the laws of the British Virgin Islands, there is limited statutory protection of minority shareholders other than the provisions of the BVI Business Companies Act (as amended), which we refer to as the Act, dealing with shareholder remedies. The principal protection under statutory law is that shareholders may bring an action to enforce the constituent documents of a BVI company and are entitled to have the affairs of the company conducted in accordance with the Act and the memorandum and articles of association of the company. As such, if those who control the company have persistently disregarded the requirements of the Act or the provisions of the company's memorandum and articles of association, then the courts will likely grant relief. Generally, the areas in which the courts will intervene are the following: (i) an act complained of which is outside the scope of the authorized business or is illegal or not capable of ratification by the majority; (ii) acts that constitute fraud on the minority where the wrongdoers control the company; (iii) acts that infringe on the personal rights of the shareholders, such as the right to vote; and (iv) acts where the company has not complied with provisions requiring approval of a special or extraordinary majority of shareholders, which are more limited than the rights afforded to minority shareholders under the laws of many states in the United States.

Under the laws of the British Virgin Islands, our directors have the power to take certain actions without shareholder approval which would require shareholder approval under the laws of most U.S. jurisdictions.

The directors of a BVI corporation, subject in certain cases to court approval but without shareholder approval, may implement a reorganization, merger or consolidation, the sale of any assets, property, part of the business, or securities of the corporation, subject to a limit of up to 50% of such assets. The ability of our Board to create new classes or series of shares and the rights attached by amending our Amended and Restated M&A without shareholder approval could have the effect of delaying, deterring or preventing a change in our control without any further action by the shareholders, including a tender offer to purchase our ordinary shares at a premium over then current market prices. Thus, our shareholders may have more difficulty protecting their interests in the face of actions by our Board or our controlling shareholders than they would have as shareholders of a corporation incorporated in another jurisdiction.

In addition, our directors do not have terms of office, and they hold office until such director's resignation, removal from office, death or incapacity. In connection with the adoption of the Rights Plan in August 2010, we amended our memorandum and articles of association to provide that directors may only be removed by shareholders for cause. Under our Amended and Restated M&A, annual meetings of shareholders are no longer required. Since 2010, we have not held any shareholders meetings. We follow home country practice with respect to annual shareholders meetings and are not obligated to hold annual meetings of shareholders.

If securities analysts do not publish research or reports about our business or if they downgrade our shares or our sector, our share price and trading volume could decline.

The trading market for our ordinary shares has been affected in part by the research and reports that industry and financial analysts publish about us or our business. We do not control these analysts. Furthermore, if one or more of the analysts who cover us downgrade our shares or our industry, change their views regarding the shares of any of our competitors, or other companies in our industry, or publish inaccurate or unfavorable research about our business, the market price of our shares could decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the market, which in turn could cause our share price or trading volume to decline.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were established under the laws of the BVI on February 6, 2006, as HLS Systems International, Ltd., in order to merge with Chardan North China Acquisition Corporation ("Chardan"), a Delaware special purpose acquisition company, originally established on March 10, 2005, with the primary purpose of effecting a business combination with an unidentified operating business that has its primary operating facilities located in China, in any city or province north of Yangtze River. On September 20, 2007, we acquired all of the issued and outstanding ordinary shares of GTH, a BVI company. On August 1, 2008, our ordinary shares started trading on NASDAQ Global Select Market. On July 17, 2009, we changed our name to Hollysys Automation Technologies Ltd. to more accurately reflect our core value of leveraging proprietary technologies to provide state-of-the-art automation and control solutions for our clients.

On July 1, 2011, we purchased 100% of the equity of Concord Group for a combination consideration of cash and stock for a total value of $42.9 million. Concord Group provides electric solutions with end-to-end design, engraving, engineering, procurement, project management, construction and commissioning, and maintenance, active in the rail industry in Singapore, Qatar, UAE and Saudi Kingdom and the building retrofit market in Singapore.

On April 1, 2013, we purchased 100% of the equity of Bond Group for a purchase price of $73 million, payable 50% in cash and 50% in ordinary shares of Hollysys. The stock will be issued to the Bond Group shareholders in three installments over three years, 60% of which are incentive shares and will be based on certain performance targets for calendar years 2013 and 2014. Additional ordinary shares, as a premium on performance, will be issuable to the Bond Group shareholders, if Bond Group outperforms the established targets, but the premium will not exceed 15% of the total incentive shares in any case. The operating results of Bond Group have been included in our consolidated financial statements effective from April 1, 2013. Bond Group provides complete mechanical and electrical solutions with end to end capabilities in design, engineering, procurement, project management, construction and commissioning, and maintenance to a wide array of industries, including factories, data centers, banks, hospitals, airports, power stations, gas and instrumentation plants, hotels, commercial centers, residential buildings and infrastructure works. We seek to take advantage of Bond Group's strong presence and brand name in Southeast Asia and to strengthen our Southeast Asian business.

On November 24, 2015, we established CECL to explore the market in Qatar. CCPL has a 49% direct ownership of CECL and the remaining 51% equity interest is held by a nominee shareholder. Through a series of contractual arrangements, CCPL is entitled to appoint the majority of directors of CECL who have the power to direct the activities that significantly impact CECL's economic performance. Further, CCPL is entitled to 95% of the variable returns from CECL's operations. As a result, despite of its direct minority ownership of CECL, CCPL is considered the primary beneficiary of CECL.

In July 2016, Beijing Hollycon Medicine & Technology. Co., Ltd. ("Hollycon"), previously as one of our subsidiaries, issued new shares for an aggregate cash consideration of $30,943 to new investors. At the same time, we disposed 0.6% of our equity interest in Hollycon for cash consideration of $464. These two transactions resulted in dilution of our equity interests in Hollycon from 51% to 30%. According to the revised article of association, Hollycon was managed by a board of directors comprising of a total 5 members, of which, we can appoint two directors while the other three shareholders can appoint one director each. We can also appoint the chairman of the board. All major management and operation decision need be approved by the board and requires approval by at least 2/3 of board directors. Profits are allocated to shareholders based on the percentage of respective initial investment. We lost control over Hollycon upon the completion of the two transactions set out above, but maintained significant influence over Hollycon, and accounted for the investment in Hollycon under the equity method. Upon the deconsolidation date, we recorded the retained non-controlling equity investee at fair value of $22,737 and recognized a gain of $14,514. The fair value of retained non-controlling interest in Hollycon was measured using a discounted cash flow approach. Key estimates and assumptions include the amount and timing of future expected cash flows, terminal value growth rates, and discount rate.

In July 2017, BCPL, our wholly-owned Singapore subsidiary, and a Malaysian citizen (the "Trustee") entered into a trust deed, under which, 49.1% of BCPL's equity interests in Bond M & E Sdn. Bhd. ("BMJB"), a Malaysian company, which previously was a 100% subsidiary of BCPL, was transferred to the Trustee. According to the trust deed, all of the beneficial interests in BMJB belong to BCPL and the Trustee shall hold the legal title of the transferred shares on trust for and act on behalf of BCPL absolutely. Any dividend, interest and other benefits received or receivable by the Trustee will be transferred to BCPL. The Trustee shall exercise the managerial rights and voting power in a manner directed by a prior written notice from BCPL. The Trustee shall be obligated to vote in the same manner as BCPL in the absence of any written notice. In addition, an undated Form of Transfer of Securities with the transferee's name left blank was duly executed by the Trustee and delivered to BCPL. Therefore, BCPL can transfer the 49.1% of equity interests to any party at any time without further approval by the Trustee. Accordingly, the Company believes it holds all beneficial rights, obligation and the power of the 100% equity interest in BMJB, and therefore consolidates 100% of equity interests in BMJB into its financial statements.

In August 2018, we transferred 100% of our equity interest in Beijing Hollysys Intelligent Technologies Co., Ltd. ("Hollysys Intelligent"), a wholly owned subsidiary, to Ningbo Hollysys Intelligent Technologies Co Ltd. ("Ningbo Hollysys") in exchange for a 40% equity interest in Ningbo Hollysys. Upon the transfer of the equity interest, we lost control of Hollysys Intelligent and therefore, deconsolidated the subsidiary.

The Securities and Exchange Commission, or SEC, maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

Our web site address is http://www.hollysys.com. Information contained on, or that can be accessed through, our website does not constitute a part of this annual report.

B. Business Overview

COVID-19 Update

Since the third quarter of fiscal year 2020, a novel strain of coronavirus (COVID-19) has spread rapidly globally. The pandemic has resulted in quarantines, travel restrictions and the temporary closure of stores and business facilities globally. Given the rapidly expanding nature of COVID-19 pandemic, we believe there is a risk that our global business, results of operations, and financial condition will be adversely affected. Potential impact to our results of operations will also depend on future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by government authorities and other entities to contain COVID-19 or mitigate its impact, almost all of which are beyond our control.

The impacts of COVID-19 on our business, financial condition, and results of operations include, but are not limited to, the following:

- We have implemented necessary measures to ensure the health and safety of our employees and made appropriate adjustments to our business operations in response to the pandemic's impact. Since late January 2020 and during the early period of the pandemic, we conducted regular monitoring of the health condition of our employees through online survey. In early February, we were implementing work-from-home scheme based on the development of pandemic containment. During such time, staff was selectively arranged for on-site work in accordance with the healthcare guidance to undertake particular urgent projects covering R&D, production and engineering. Prior to the returning of our employees to normal on-site work, comprehensive healthcare guidance was established in each of our bases in China to be strictly followed by, including mandated mask wearing, health QR code checking at the entrance, daily temperature measurement, and distancing policy for particular areas, etc. As of June 30, 2020, all of our employees in China have returned to their workplace.
- During the last two quarters of fiscal year 2020, the pandemic has led to delay of project execution and contract bidding, while marketing events were also adversely affected due to restriction on on-site communication. Such has negatively impacted our financial performance. For instance, our total revenue in fiscal year 2020 decreased by 11.7% to $503.3 million and our total amount of new contracts won in fiscal year 2020 decreased by 24.2% to $549.2 million.
- While we have seen gradual recovery of our overall business resulting from improving health statistics in China since March 2020, the pandemic continued to have an adverse effect on our overseas business, especially in South East Asia and South Asia. In overseas workplace, we have implemented the policy requesting non-essential employees to work remotely. As a result of the pandemic, tenders and projects have also been delayed. In addition, the pandemic is also one of the triggers for evaluating whether there is goodwill impairment of Bond Group and long-lived asset impairment.

Because of the uncertainty surrounding COVID-19 outbreak, the business disruption and the related financial impact related to the outbreak of and response to the coronavirus cannot be reasonably estimated at this time. For more descriptions of the risks associated with COVID-19, see "Item 3. Key Information—D. Risk Factors— An Outbreak of Disease or Similar Public Health Threat, or Fear of Such an Event, Could Have a Material Adverse Impact on the Company's Business, Operating Results and Financial Condition."

Our Mission

Automation for better life.

Overview

We are a leading automation control system solutions provider in China, with overseas operations in eight other countries and regions throughout Asia. Leveraging our proprietary technology and deep industry know-how, we empower our customers with enhanced operational safety, reliability, efficiency, and intelligence which are critical to their businesses. We derive our revenues mainly from providing integrated solutions for industrial automation and rail transportation. In industrial automation, we deliver the full spectrum of automation hardware, software, and services spanning field devices, control systems and enterprise manufacturing management. In rail transportation, we provide advanced signaling control and SCADA systems for high-speed rail and urban rail (including subways). Internationally, through the acquisitions of Concord Group and Bond Group in 2011 and 2013 respectively, we are expanding and deepening our ability to offer mechanical and electrical solutions in design, engineering, procurement, project management, construction and commissioning, and maintenance to a wide range of industries, such as manufacturing, banks, hospitals, airports, power plants, commercial centers, hotels, and infrastructure works.

Founded in 1993, with technical expertise and innovation, we have grown from a research team specializing in automation control in the power industry into a group providing integrated automation control system solutions for customers in diverse industry verticals. As of June 30, 2020, we had cumulatively carried out more than 30,000 projects for approximately 17,000 customers in various sectors including power, petrochemical, high-speed rail, and urban rail, in which we have established leading market positions. With our strong customer base and highly-reputable brand, we believe we are well positioned to capture opportunities from untapped growth potential in China and around the world.

Our Business Platform and Value Proposition

Our highly-scalable and adaptable business platform is based on three key complementary pillars:

- Proprietary and core technologies
- In-depth understanding of our clients' industrial processes
- Dedicated pursuit of customer satisfaction

Our suite of integrated solutions offers customers the following value propositions:

- Compliant with international standards
- Leading functionality and quality
- Strong product safety and reliability
- Highly flexible customization
- Cost-effective solutions

- Comprehensive service capability

Solutions, Products and Services

Industrial Automation:

We are able to deliver the full spectrum of automation hardware, software, and services spanning field devices, control systems and enterprise manufacturing management. Historically, we focused our efforts on the area of DCS (Distributed Control System), which is a network of controllers, sensors, actuators and other devices that can be programmed to control outputs based on input conditions through logic calculations. In an automated production line, sensors or so-called "instrumentations" are distributed across the production facility to monitor sub-systems like the robots, CNC machines, and logistic tools. These sensors are like human eyes, which monitor the process, and detect any abnormal situations. The information collected from those sensors is then transmitted to the DCS for centralized data processing through communication networks. The central computer (brain) processes information and generates commands, based on sophisticated algorithmic and pre-set parameters. These commands are then sent to actuators (muscles/bones) through communication devices to execute the orders and maintain production flow. We are as well a player in the PLC market, where the products are mainly used in discrete control and applied to a wide array of industries. PLCs are usually integrated together into machines to provide control at machinery level.

Our comprehensive suite of automation solution consists of third-party hardware-centric products such as instrumentation and actuators, our proprietary software-centric DCS/SIS (Safety Instrumentation System)/PLC, and valued-added software packages such as RMIS (Real-time Management Information System), HAMS (HolliAS Asset Management System), OTS (Operator Training System), HolliAS BATCH (Batch Application Package), and HolliAS APC Suite (Advanced Process Control Package), etc. Our solution has been widely used in process industries involving continuous flow of material handling, such as power generation and petro-chemical, while we have also served clients from metallurgy, building materials, pharmaceutical and food & beverage, etc. Our client base includes large state-owned enterprises, multi-national companies, and other domestic companies. Some of our renowned customers include the five major Chinese power generation companies, the three major Chinese petroleum companies, and international companies such as BASF, etc. We have also obtained customers from India and Southeast Asia within similar industries.

Meanwhile, the development of equipment and process level automation in China has gradually increased production digitalization, which has created opportunities for the development of digital factory. Compared with equipment and process automation, digital factory brings production and management into greater coordination. The realization of such change requires the integration and processing of data of different verticals covering equipment, production line, workshop and corporate administration level. We have put forth our digital factory initiative in the year 2018 and have successfully signed several contracts with our existing customers from power and chemical industry.

We also command a position in Chinese nuclear power automation and control market as the only qualified local automation and control product provider to the non-safety control for both nuclear island and conventional island of nuclear power reactors in nuclear power stations. We provide our HOLLiAS MACS-N DCS product to China's nuclear power industry. The know-how was accumulated from our industrial DCS applications in high-end, conventional energy power plants, with much more sophisticated software and hardware specifications, and more stringent production and quality assurance process. In a nuclear power station, the nuclear island operates to transform nuclear energy to heat energy, and pass on the steam generated by the steam generator to the conventional island, where steam drives the turbine to generate the electricity, and pass on to the transformer for loading onto the grid.

Rail Transportation:

We have branched out from the industrial automation domain into the subway and high-speed rail businesses, leveraging on our core competency and strong research and development capabilities, and have already established a key position in the high-speed rail signaling market and subway SCADA market.

In high speed rail business, our core proprietary product lines includes TCC (Train Control Center) and ATP (Automation Train Protection). An ATP essentially acts as the train over-speed protection mechanism. It collects real-time information like speed limit ahead, train operation status, line data, instructions from train control center, and then combines that information with the train parameters to produce train protection curves. In case of any human errors, like driver's negligence at the red light, it applies emergency brakes automatically. TCCs is an on-ground control center at railway stations or equipment stations which monitor route condition, track status, train schedules, distance between trains, and the working status of other essential function devices, and then through logic calculation, generate control instructions and commands. The command information from the TCC is then transmitted to the ATP located on the locomotives/trains, through track circuits and electronic beacons located at various points along the railway line, or wirelessly.

Besides ATP and TCC, we also provide other signaling products in high speed rail market, such as ATO (Automatic Train Operation system), Track Circuit, LEU (Line-Side Electronic Unit), BTM (Balise Transmission Module), TSRS (Temporary Speed Restriction Server), RBC (Radio Block Center) and CBI (Computer Based Interlocking), etc. China Railway Corporation employs its own administrative admission system and set specific standards for the high-speed rail signaling products deployed in China's high-speed rail lines. In addition to having our products certified under those domestic standards, we have redesigned the whole set of our high-speed rail signaling systems to better compete in the rail market outside of China. Most of our high-speed rail signaling products have passed European Safety Standards SIL 4 certification. For high-speed rail business, CRC and local provincial rail bureaus are our major customers. We are also the supplier of the entire high-speed rail signaling system to Shenzhen-Hong Kong high-speed rail line for the Hong Kong MTR, which marked our breakthrough into the international high-speed rail signaling market.

In subway business, our core product is SCADA system. It is an open software platform to enable integrated and unified monitoring of all necessary sub-systems of the subway, including the Power Supervisory Control and Data Acquisition System, Building Automatic System, Fire Alarm System, Platform Screen Door System, Access Control System, Closed Circuit Television, Passenger Information System, Passenger Train Information System, and Alarm System. Our performance records cover numerous cities in China, include Beijing, Guangzhou, Shenzhen, Tianjin, Dalian, Wuhan, Chengdu, Lanzhou and Hohhot, etc. Our international performance records include Thomson & Eastern Region Lines in Singapore and Shenzhen-Hong Kong high-speed rail line. Based on our strong research and development capability and technical know-how of signaling application accumulated from high-speed rail, we have also developed our proprietary subway signaling system certified under European safety standards. The current subway signaling market is predominantly occupied by multi-national corporations, such as Siemens, Alstom and Thales.

Mechanical and Electrical:

We established a stronger foot-hold in Southeast Asia through the acquisitions of Concord and Bond Groups in 2011 and 2013 respectively. Concord and Bond Groups mainly provide mechanical and electrical solutions, including design, engineering, procurement, project management, construction and commissioning, and maintenance related services. Concord Group mainly focuses on railway transportation in Singapore, Macau, Qatar, UAE and Saudi Kingdom markets, and Bond Group mainly focuses on factories, data centers, banks, hospitals, airports, power stations, gas and instrumentation plants, hotels, commercial centers, residential buildings and infrastructure works in Malaysia. Through the acquisitions, the Company seeks to expand the existing distributions and marketing channels to sell the Company's existing product lines to the fast growing Southeast Asia and the Middle East markets.

During the past several years we have achieved a number of significant contract wins in international arena, including (i) contracts with MTR Corporation of Hong Kong SAR to provide a complete suite of high-speed rail signaling systems to Guangzhou-Shenzhen-Hong Kong Express Rail Hong Kong Section; (ii) a contract with SMRT Trains Ltd. in Singapore to provide design, electrification and installation for station renovations on North-South and East-West lines and a contract with Thales Solutions Asia Pte. Ltd. to provide design, installation, testing and commission for replacing the existing signaling systems for the North-South and East-West lines and install new signaling systems for the Tuas West Extension line in Singapore; (iii) a contract with Land Transport Authority in Singapore to provide the Integrated Supervisory Control System for the Thomson & Eastern Region Lines in Singapore; (iv) a contract with Mitsubishi Heavy Industries Ltd. to provide electrical installation services for part of the Power Distribution System Package of the first Phase of Doha Metro; (vi) maintenance contracts with MTR Corporation of Hong Kong SAR spanning multiple years.

Project Implementation:

We establish a project group of sales engineers, technical engineers and project management professionals for each of our potential customer to provide them total integrated solutions tailored to their specific requirements. The sales engineers and technical engineers work together to offer the best customized solutions from understanding customer's detailed requirements through on-site studies. The technical engineers are responsible for hardware assembly, software configuration, testing and installation, commissioning and trial operation, and start-up and training; while the project management professionals oversee budgetary matters, coordinate the work force, ensure adequacy of resources and monitor progress and quality to ensure the timely completion of each project. Our integrated solutions projects involve one or more of the following activities:

- *Solution planning* – We provide our customers with strategic and tactical reviews of their current operations and future requirements. The planning includes defining client business requirements, developing appropriate hardware and software, and selecting preferred technology.
- *Solution design* – We detail the industry specifications and implementation tactics necessary to achieve our customer's objectives. Hollysys also take into consideration the integration of the hardware and software deployed in our integrated solution with the existing ones of the customer, and the ongoing management followed Examples of these services include defining functional requirements for the system and our components, developing integration plans and designing of customer-specific system and services applications.

- *Solution implementation* –We install the recommended systems and provide essential services throughout the solution implementation process, to better meet our customers' specific requirements. Key activities include project management, hardware procurement and production, software development, configuration and field installation and testing, and development of customized system and services management applications.

Our proprietary technology and products based integrated solutions create value for our customers and improve their competitive strengths by:

- Generating synergy and improving efficiency of our customers through integrating communications, marketing and service functions;
- Utilizing our industry and process knowledge to develop customized solutions that improve the efficiency of our customers;
- Providing a software platform for the optimization of management operations, which provides real-time automation and information solutions throughout a business; and
- Offering maintenance and training services to our customers, which help to cut costs and improve operating efficiency.

We customize our floor plans based on conducting careful on-site studies, building design-specific network systems using our proprietary technology and software, and offering manufacturing execution system services to ensure that real-time management control is available to our customers in a streamlined and easy-to-use manner.

We believe that our product design and applications integrated in the solutions are unmatched among our domestic competitors. We also believe that the sophistication and quality of our products rival those of the multi-national automation and control product suppliers, while our insightful understanding of demands of our Chinese customers and the ability to respond give us a leading edge over foreign competitors.

Integrated Solutions Contracts

The main channel through which we get our automation system business is the procurement bidding process. Customers seeking bids propose their requirements and specifications in legal bidding documents and those companies that are interested in obtaining these contracts make a bid in written form. If we win the bid, we finalize an integrated solutions contract. We derive a large percentage of our total consolidated revenues from the integrated solutions contracts that we win through the bid process. In addition, we also generate revenue from products sales of spare parts and component products to customers for maintenance and replacement purposes after the completion of the integrated solution solutions contract, and from provision of service such as maintenance and training which tends to provide a recurring revenue stream.

The purpose of an integrated solutions contract is to furnish an automation system that provides the customer with a total solution for the automation or process control requirement being addressed. The automation system and total solution that we offer consists of hardware, software and services, all of which are customized to meet the particular needs and technical specifications of our customers. None of the hardware, software and service has independent functionality, and therefore cannot be sold separately to customers.

The major terms of an integrated solution contract include solution planning and design, system installation, customer acceptance, payment milestones and warranty. The process of fulfilling an integrated solutions contract consists of the following four stages:

- *Solution planning and design* - We provide customers with a customized plan for achieving the required solution by establishing a project group for each contract. The project group includes system engineers who propose and discuss and agree on the system design and implementation plan with the technical personnel of the customers.
- *System manufacturing and installation* - Based on the design and implementation plan, and in accordance with the project schedule, we enter into the process of purchasing the necessary hardware, manufacturing components for the hardware, developing software platform, re-configuring the software embedded in the hardware, and fabricating the integrated hardware into cabinets, on-site installation and testing, and training customer's personnel about how to use the automation and total solution.
- *Customer acceptance* - The procedures for customer inspection and acceptance of the system are typically contained in the contracts. The initial inspection usually occurs when the hardware is delivered to the customer's site for the purpose of detecting any obvious physical damage during shipping and to confirm that the entire order was delivered. A final acceptance will be performed upon the satisfaction of integrated solution testing.
- *Warranty period* - The integrated solutions contracts customarily provide our customers with a one to three years warranty (although sometimes the warranty period may be longer depending on the customer and the negotiations for the contract), which runs from the date of the final customer acceptance. The end of the warranty period represents fulfillment of the entire contract.

Because of the nature of customized integrated solutions contracts, a customer does not have the right to return the products that we deliver, so long as such products conform and perform to the customer's specification. Prior to delivering our products to a customer's site, we perform an internal test to ensure that the automation system works as intended. After installing the products on a customer's site, any problems are solved during trial runs. Once the testing requirements have been satisfied, a customer will execute a customer acceptance document, which marks the beginning of the warranty period. Due to the nature of this process, many companies in the automation systems business generally do not carry product liability insurance.

The size of an integrated solutions contract is determined by a customer's needs in terms of the amount of equipment needed and the complexity of the integrated solution. The size of an integrated solutions contract drives the revenues generated by the contract. Because most contracts will require working periods longer than one year, the best way to measure the contract revenue realized is to use the percentage-of-completion or cost-to-cost method. Ultimately, our revenue stream will be driven by the average price of an integrated solutions contract and how many integrated solutions contracts have started in each reporting period.

Our backlog of contracts presents the amount of unrealized revenue to be earned from the contracts that we have won. Accordingly, any increase or decrease in new contracts won by us, or any change of scheduled delivery dates will have a future impact on our future revenue streams. In the event of a delay in the delivery schedule, then the time of inspection, installation, trial run and customer acceptance will be delayed accordingly, all of which will affect our revenue recognition. If the delay of delivering the specified automation systems was a result of our inability to deliver the system on a timely basis, then we will be held responsible for this delay, in accordance with the terms specified in the respective integrated solutions contracts.

Markets

Industrial Automation Market

According to MIR DATABANK, an industry research group, the DCS market in China in calendar year 2019 was around RMB 8,740 million, recorded a YOY growth of 7.2%.

Multi-national companies including Honeywell (US), Siemens (Germany), Emerson (US), ABB (Sweden), Rockwell (US), Yokogawa (Japan) and Hitachi (Japan) account for the majority of the global automation market share, and such market pattern is similar in China. However, with years of development, domestic players including Hollysys and Supcon, etc. are gradually becoming one of those leading players in different verticals.

The drivers for industrial automation market in China are listed below.

Rising labor costs. As labor costs in China rise while the cost of automation control systems decline due to domestic production and other factors, industrial automation solutions are expected to become more valuable, affordable and in-demand by Chinese industrial firms.

Growth of end market. As China’s economy evolves, multiple sectors are expanding, giving rise to the need for industrial automation solutions. Such sectors include nuclear power, waste incineration and biomass power, chemical and petrochemical, semiconductor and electronics, and healthcare.

Maintenance and replacement of existing industrial automation systems. The massive scale of existing industrial automation, driven by strong growth in recent years, and the limited designed service life of automation equipment, generally 10 to 15 years, should create significant need for maintenance and replacement, which are expected to sustain long-term demand for industrial automation. Such sectors include thermal power, chemical and petrochemical, food and beverage, semiconductor and electronics, household appliances, and healthcare.

Industry-wide upgrade. The transformation of entire industries by the emergence of data-driven smart manufacturing and IIoT is expected to generate a high volume of new deployment needs for industrial automation, which in turn, is expected to generate recurring needs for maintenance and upgrade.

Favorable policies. The Chinese government is actively promoting environmental protection, energy conservation and industrial transformation and upgrade in to achieve a more sustainable course of development, which also gives rise to market opportunities for automation solution providers.

Several noticeable trends of the market have to be mentioned. Domestic players in PRC industrial automation market have substantially improved their brand name and R&D capability, which enables them to penetrate high-end market segments that have traditionally been dominated by multinational companies, such as Emerson, Honeywell and Siemens. Domestic players are expected to leverage their deep knowledge of domestic customers and proven track record to win market share in specific strategic industries. Market dynamics will favor industry-leading players who have the capability and resources to provide customized solutions, high quality products, greater flexibility and faster response. Recent entrants and smaller-scaled players are expected to be marginalized from the competition due to lack of technology competitiveness, demonstrated service capabilities and shorter track record.

We are well-positioned to benefit from China's nuclear power development. At present, China's nuclear power sector is relatively underdeveloped, with the vast majority of power generated by coal-fired power plants. According to China Nuclear Energy Association, as of June 30, 2020, there were 47 nuclear reactors in operation in China.

We are penetrating into international markets with primary focus on Singapore, Malaysia, Indonesia, India and the Middle East, all of which are largely developing areas. The strong growth of infrastructure and increased demand for automation technologies will benefit us in these areas.

Rail Transportation Market

Another important end-market for Hollysys is the high-speed rail market in China, where we command a leading position in providing high-speed rail signaling systems to ensure the safety of passenger train movement. The China Railway Corporation developed a national high-speed rail signaling technological standard, the China Train Control System, or the CTCS. Under the CTCS, the standard governing the 200-250km/hour speed category is called C2, while C3 governs the 300-350km/hour category. These standards are different from the international standards propounded by European organizations or Japan.

According to the Middle and Long Term Railway Network Planning (2016 version) approved by National Development and Reform Commission (NDRC), high-speed rail operating mileage is expected to reach 38,000km by end of 2025 and to reach 45,000km in a longer term. According to the 2019 Rail Transportation Statistics Report issued by the Ministry of Transport of PRC, total high speed railway operating mileage reached 35,000km by the end of 2019, annual newly added operating mileage was 5474km. According to Frost & Sullivan, the high-speed rail control system market is expected to grow at 11.7% CAGR from 2018 to 2023 and reach RMB29.2 billion (US$4.4 billion), with maintenance and replacement accounting for a rapidly growing share of expenditures. As one of the three high-speed rail signaling products providers in the C2 category in China, and one of the three high-speed rail signaling products providers to the C3 segment, we believe that Hollysys is well positioned to benefit from this unprecedented, world leading high-speed railway build-out.

According to the 2019 Rail Transportation Statistics Report published by the Ministry of Transport of PRC, operating mileage of urban rail transit in China reached 6,172km by end of 2019, indicating an annual increase of 877km. According to Frost & Sullivan, total operating mileage of urban rail transit in China is expected to reach 9,276 km in 2023, representing a CAGR of 10.7% from 2019 to 2023.

The drivers for rail automation market in China are the followings.

Urbanization. Rapid urbanization and regional economic integration in China are expected to continue to drive new construction of high-speed rail and urban rail transit. In addition, the demand for more efficient operation of high-speed rail and urban rail transit systems is expected to also generate demand for rail automation in China.

Renewal and upgrade. The massive scale of high-speed rail and urban rail transit networks is creating a growing need for renewal, replacement and upgrade of rail automation equipment, as high-speed rail signaling control systems have designed service lives of 10 to 15 years and urban rail signaling systems have designed service lives of 15 years.

Favorable policies. Ambitious PRC government policies such as the Eight Horizontal and Eight Vertical High-speed Railway Corridors Project, Belt and Road Initiatives, and High-speed Railway Diplomacy is expected to sustain growth in the rail automation market.

Moreover, domestic firms have made substantial breakthroughs in building control system technologies and are expected to accelerate import substitution in China's rail automation market. The share of domestic equipment and system is expected to increase. Also, a wider adoption of fully automatic train technology that allows "driverless" trains to be managed automatically by the system without a train conductor marks the next stage for automation of railway and urban rail.

Mechanical and Electrical Solutions Market

We offer mechanical and electrical solutions (M&E) through Concord and Bond Groups in Southeast Asia, the Middle East and Hong Kong. Through acquisitions of the above entities, we are expanding and deepening our ability to offer mechanical and electrical solutions in design, engineering, procurement, project management, construction and commissioning, and maintenance to a wide range of industries, such as manufacturing, banks, hospitals, airports, power plants, commercial and residential buildings, hotels, and railway and subway lines.

The outbreak of COVID-19 has impacted on construction and transportation sector in the Southeast Asia and the Middle East market. With projects being delayed and supply chain being impacted, our target market is expecting a slow recovery in the post-COVID-19 era.

Competition and Our Strengths

In industry automation business, we believe our major competitors are multi-national corporations, such as ABB, Honeywell, Emerson and Siemens. Supcon, a local private company affiliated with Zhejiang University, is among our primary competitors as well. In Southeast Asia and the Middle East markets, our principal competitors for industrial automation are multinational corporations such as ABB, Siemens, Emerson, Yokogawa and Honeywell.

In the PRC high-speed rail business, given the administrative admission system employed by China Railway Corporation and the governing of national rail technology standard, the China Train Control Standard (CTCS), we are facing less competition from multi-national companies. Currently, Hollysys is one of the three entities that supply signaling products to China’s 200-250km/h segment of the high-speed rail market. The other two are China Academy of Railway Science and Zhuzhou CRRC. Hollysys is one of the three signaling product providers to China’s 300-350km/h segment of the high-speed rail market. The other providers are CRSC and China Academy of Railway Science. In SCADA market, we mainly compete with Nanjing Automation Research Institute (NARI). In the nuclear automation segment, we mainly compete with multi-national corporations such as Siemens, Areva, and Invensys. The major competitors in the international rail and subway signaling markets are Bombardier and Alstom.

For the mechanical and electrical solutions business, the main competitors for Concord and Bond Groups include Bintai Kinden Corporation Berhad, PJI Holding Berhad, and LFE Corporation Berhad, Kurihara, Sanyo, Bintai KDK and Gammon Construction.

We believe that our key competitive advantages edge are the following:

- *Market leadership with strong reputation*.

  We are one of the largest automation control system solutions providers in China, playing a key part in many verticals in which we operate in China.

  Our solid leadership position rests not only on market share, but also on our continued innovation and breakthroughs in the industry in China. We were the first to achieve the following feats in China’s automation market, according to Frost & Sullivan:

  - 1st domestic DCS with practical application (1993);
  - 1st domestic nuclear power station computing system to enter operation (1997);
  - 1st domestic railway transportation SCADA (2002);
  - 1st proprietary domestic large-scale PLC system (2007);
  - 1st passenger line with CTCS-2 Train Control System (2008);
  - 1st GW Nuclear Power Station Digital Instrumentation Control System (2011);
  - 1st to introduce CTCS-3 category high-speed rail control system in an overseas market (2012);
  - 1st domestic SIS (2012); and
  - 1st and only Chinese company to provide DEH control system for gigawatt power plant (as of 2018).

As evidence of our strong reputation, we have been actively involved in setting industrial standards, and have received numerous awards and industry recognitions. Notably, we have:

- Led or participated in the formulation of national standards including industrial enterprise information integration system standards, urban rail transit integrated supervision and control system design specifications, industrial-process measurement, and reference model for control and automation production facility (digital factory).
- Obtained national-level recognitions including PRC State Council's State Science and Technology Progress Award, National Development and Reform Commission's State Accredited Enterprise Technology Center, Ministry of Science and Technology's Technology Innovation Demonstration Enterprise, and the Ministry of Industry and Information Technology's designation as an Intelligent Manufacturing System Solutions Provider (among the first to receive the designation) and award for excellence in Industrial Internet App Solutions in 2018.
- Received product and service quality awards from Hong Kong's Mass Transit Railway (MTR) for five consecutive years, including the Gold Quality Award in 2016, the highest honor given by MTR in respect to project quality management.

- *Proven credentials with high barriers to entry*.

  Our proven credentials of qualification, project experience and reliability record have formed strong barriers and a self-reinforcing virtuous circle that has enabled us to stand out among our competitors.

  In China, we are the only domestic company qualified to design and manufacture non-safety control systems of nuclear power plants, the only SIS provider on the National Safety Bureau's 2017 Directory for the Promotion of the Advanced and Replacement of the Obsolete in Safety Technology and Equipment, and one of the only three companies qualified to provide high-speed rail signaling products in both CTCS-2 and CTCS-3 categories, as well as to design and construct Chinese high-speed rail ATO control systems. In the overseas market, our rail signaling systems and SIS have attained the highest European safety standard certifications.

  Among the over 30,000 projects completed since our founding days, we have steadily climbed the ranks and undertaken some of the most sophisticated and challenging projects for increasingly demanding customers in China. Our integrated and balanced teams including R&D staff, engineers and project management have accumulated invaluable relevant experience and in-depth industry knowledge of our customers' industry verticals. These valuable credentials were built through decades of dedication and commitment and are critical in enabling us to win bids.

  Our customers operate in industries with some of the most stringent safety and reliability requirements such as nuclear power and high-speed rail, where small system malfunctions could lead to disastrous accidents. We have always put safety first and implemented comprehensive procedures to ensure the highest safety standards. As a result, we have maintained an outstanding safety record throughout our 25-year history, and potential customers come to us because of our reputation for safety and reliability.

- *Integrated, customized solutions leading to high customer satisfaction and stickiness.*

  With comprehensive system integration capabilities as our backbone, we offer customers one-stop shop total solutions and deliver convenient and economic solutions, which significantly mitigate system compatibility risks.

We go further by providing tailor-made solutions with our proprietary technologies, which we can readily adapt and customize to meet varying needs. We form dedicated teams composed of complementary groups of sales personnel, and hardware and software engineers from a variety of disciplines to understand our customers' specific needs early on, identify feasible action items, and customize to their satisfaction. Our customization approach has proven value proposition particularly in our home market, where many customers have developed their own production processes, and many others are becoming more sophisticated in their demand, according to Frost & Sullivan.

Our customized total solutions are inherently highly-integrated into our customers' business operations, which makes it costly and time consuming for our customers to switch to other providers. Our engineers on the ground have close and frequent contact with our customers as they perform routine maintenance and inspection. We believe our customers' reliance on our systems and personnel provides us with unique advantages in generating recurring revenue from services and upgrades, and securing new business from our customers and their affiliates. Our products sold and services rendered as reported in our income statement were mainly derived from existing customers after their initial purchase of our integrated solutions contract. We believe we shall continue to benefit from the structural upgrade and replacement opportunities in some of China's largest industries.

- *Strong technology, engineering and R&D capabilities.*

Technology is at the core of our competencies, and rooted in our engineering background and innovative culture. Among other automation control systems, we have successfully developed our own proprietary DCS, PLC, high-speed rail and urban rail signaling and certified SIS systems. We are also proactively embracing the era of IIoT and have attained achieved an early leading position in this area, as evidenced by our capacity to provide smart manufacturing solutions, and our recent awards from the 2019 Industrial Internet Summit including Excellent Data Collection and Edge Computing Technology Provider, Excellent Industrial PaaS Provider and Excellent Industrial SaaS Provider. As of June 30, 2020, we held 249 software copyrights, 159 authorized patents, 166 pending patent applications and 45 registered trademarks.

We employ a platform-based, modular technology system, which enables us to use basic modules as building blocks and quickly develop entire systems that can be adapted to various needs. Such flexibility and adaptability enable us to quickly respond to changing customer needs, and apply our solutions to new customers by combining the appropriate modules along with our industry and customer know-how.

We have in place a full suite of infrastructure that gives rise to strong R&D capabilities, including research facilities and labs in Beijing, Hangzhou, Xi'an and Singapore. We also collaborate with Academecians from the Chinese Academy of Engineering on R&D endeavors in relevant areas including automation, digitalization, smart manufacturing and industrial information security. We adopt a market-driven approach, in which we strategically focus our R&D on the parts of the value chain that we excel at and our future targeted markets, while we continuously upgrade our technology from project experience. We have spent approximately 6 – 8% of our revenues on research and development each year.

- *Visionary and professional board and management team.*

Our directors and management have on average over 20 years of professional experience. They bring together complementary expertise and insights from technology, finance, academia and capital markets. Their strategic vision and successful execution of our strategy have enabled us to achieve operational excellence and various breakthroughs in our business.

Strategy

We intend to achieve our mission through the successful execution of the key elements of our development strategy, which include:

- *Strengthening market leadership and expanding market shares*

  As the market leader for automation control system solutions, we intend to continue to focus on our existing businesses in industrial automation and rail transportation, and expand our market share in these fields. We seek to capitalize on the opportunities arising from structural upgrades and replacements, and provide more thoroughly-designed and comprehensive solutions packages. We will continue to build up our track record and attract more customers, and further consolidate our market position.

  Together with our associates, we plan to further expand our business into more industry verticals with tremendous market potential and favorable policy, such as renewable energy, environmental protection, energy conservation, healthcare, urban rail signaling and food & dining. Leveraging our proprietary and highly adaptable technologies, broad industry knowledge, dedicated research and development efforts and strategic alliances, we seek to build up industry know-how and our track record in these industry verticals.

- *Further expanding our comprehensive automation solutions matrix*

  We also seek to enhance our capabilities in the early stages of project cycles, such as project design and planning, and in the later stages such as after-sales maintenance and product upgrade, so as to cover the whole life cycle for automation control projects. In August 2019, we completed an acquisition of a small-size pharmaceutical engineering design company.

  Along the value chain of automation control systems solutions, we aim to extend our own-brand components to field devices on the one end, and enhance our cloud services and big data analytics on the other.

- *Continuing to optimize our operations and enhance profitability*

  We plan to continue our efforts to optimize operating efficiency, increase productivity and enhance profitability. To further streamline the supply chain, we plan to keep the production lines of core components in Beijing while moving the assembly lines of other products closer to suppliers and customers. We also plan to increase intelligent manufacturing at our own facilities, increasing the level of automation and digitalization in our own production processes to achieve efficiency gains and develop new solutions in automation for our clients.

- *Investing in research and development, and our talent*

  Given the technology-intensive nature of the automation control systems market, we see technology capability and talent as our core competencies. We have been seeking and will continue to seek to improve our existing products and services and develop new technologies, applications, and platforms. We plan to continue to invest in R&D both in China and abroad and to collaborate with multinational corporations, to ensure that our proprietary technologies remain industry leading. Specifically, we aim to invest in developing and refining our solutions in urban rail signaling, smart manufacturing and industrial internet of things.

  Our team of talented researchers and engineers is a key contributing factor to our market leadership. We aim to recruit and retain top-notch talent with well-designed incentive programs. We plan to enhance collaboration with experts from the Chinese Academy of Sciences, the Chinese Academy of Engineering, and international research institutes to further enhance our research and development capabilities, and create a conducive environment for their research and development efforts. We also plan to strengthen our innovation and incubation efforts at our newly-established innovation center and research institute in Beijing.

- *Exploring international business opportunities and expanding overseas presence strategically.*

  We have established sales networks in Singapore and Malaysia through our Concord and Bond operations. We plan to continue our internationalization in multiple aspects, including sales channel, manufacturing center and research center. If suitable opportunities arise, we may consider overseas acquisition to achieve our business goals.

  We will continue to accompany our Chinese customers as they go global. We also plan to jointly develop overseas projects with international partners. For example, we have recently formed a strategic partnership with Arup, one of the largest global engineering consulting firms, to develop and implement world-leading intelligent solutions and expand into overseas markets together.

Manufacturing

We design and manufacture the hardware of our products in Beijing and Hangzhou facilities, and in rare cases we outsource the production depending on special circumstances and delivery requirements. The core part of the hardware of our products is the printed circuit board. We manufacture the printed circuit boards in our SMT (Surface Mounting Technology) lines and plug-in mounting lines, and assemble them into various types of modules and then form the modules into the final products. The raw materials which we procure mainly include bare printed circuit boards from vendors based on our requirements and design considerations, and electronic components, chips, cabinets and cables among other factors. Our products are subjected to rigorous testing in our facilities prior to shipment.

Several subsidiaries of the Company, including Beijing Hollysys, Hangzhou Hollysys, Hollysys Intelligent, and Hollysys Electronics, have all passed GB/T 19001/ISO 9001 international quality management system certification, GB/T 24001/ISO 14001environmental management system certification, and GB/T 28001 occupational health and safety management system certification.

The GB/T 19001/ISO 9001 international quality management system certificate is valid for production, and technical service of industrial automatic control system equipment. The other two certificates are valid for production, technical service and related management activities of industrial automatic control system equipment.

Seasonality

Like many other companies operating in China and Southeast Asia, our businesses experience lower levels of revenues in the quarter ending on March 31 due to the Chinese New Year holiday.

Regulation

This section sets forth a summary of the most significant laws, rules and regulations that affect our business activities in the PRC or our shareholders' rights to receive dividends and other distributions from us.

Regulations on Company Law

Pursuant to the PRC Company Law, promulgated by the Standing Committee of the National People's Congress (the "SCNPC") on December, 29 1993, effective as of July 1, 1994, and as revised on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, the establishment, operation and management of corporate entities in the PRC are governed by the PRC Company Law. The PRC Company Law defines two types of companies: limited liability companies and limited stock companies.

Our PRC subsidiaries are all limited liability companies established under the PRC Company Law. Unless otherwise stipulated in the related laws on foreign investment, foreign invested companies are also required to comply with the provisions of the PRC Company Law.

Regulations Relating to Foreign Investment

Investment activities in the PRC by foreign investors are mainly governed by the Guidance Catalog of Industries for Foreign Investment (2017 revision), or the Catalog, which was promulgated jointly by the Ministry of Commerce and the National Development and Reform Commission on June 28, 2017 and entered into force on July 28, 2017. The Catalog divides industries into four categories in terms of foreign investment, which are "encouraged," "restricted," and "prohibited," and all industries that are not listed under one of these categories are deemed to be "permitted." Establishment of wholly foreign-owned enterprises is generally allowed in encouraged and permitted industries. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, foreign investment in restricted category projects is subject to government approvals. Foreign investors are not allowed to invest in industries in the prohibited category. Industries not listed in the Catalog are generally open to foreign investment unless specifically restricted by other PRC regulations.

In June 2019, the Ministry of Commerce and the National Development and Reform Commission promulgated the Special Management Measures (Negative List) for the Access of Foreign Investment, or the Negative List, effective July 30, 2019. The Negative List expands the scope of permitted industries by foreign investment by reducing the number of industries that fall within the Negative List where restrictions on the shareholding percentage or requirements on the composition of board or senior management still exists.

On March 15, 2019, the Standing Committee of the National People's Congress passed the Foreign Investment Law of PRC, which will take effect since January 1, 2020. The Law of the People's Republic of China on China-Foreign Equity Joint Ventures, the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises, and the Law of the People's Republic of China on China-Foreign Contractual Joint Ventures shall be replaced at the same time. The Foreign Investment Law of PRC adopts the management system of the negative list for foreign investment. A foreign investor may not invest in a field which is prohibited by the foreign investment access negative list from investment. To invest in a field restricted by the foreign investment access negative list from investment, a foreign investor shall meet the investment conditions set out in the negative list.

Regulations Relating to Intellectual Property

The Standing Committee of the National People's Congress and the State Council have promulgated comprehensive laws and regulations to protect trademarks. The Trademark Law of the PRC (2013 revision) promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001 and August 30, 2013, respectively, and the Implementation Regulation of the Trademark Law (2014 revision) issued by the State Council on August 3, 2002 and amended on April 29, 2014 are the main regulations protecting registered trademarks. The Trademark Office under the State Administration for Industry and Commerce administrates the registration of trademarks on a "first-to-file" basis, and grants a term of ten years to registered trademarks.

The PRC Copyright Law, adopted in 1990 and revised in 2001, 2010 respectively, with its implementation rules adopted on August 8, 2002 and revised in 2011 and 2013, respectively, and the Regulations for the Protection of Computer Software as promulgated on December 20, 2001 and amended in 2011 and 2013 provide protection for copyright of computer software in the PRC. Under these rules and regulations, software owners, licensees and transferees may register their rights in software with the National Copyright Administration Center or its local branches to obtain software copyright registration certificates.

The Ministry of Industry and Information Technology promulgated the Administrative Measures on Internet Domain Name on August 24, 2017 to protect domain names. According to these measures, domain name applicants are required to duly register their domain names with domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

We have adopted necessary mechanisms to register, maintain and enforce intellectual property rights in China. However, we cannot assure you that we can prevent our intellectual property from all the unauthorized use by any third party, neither can we promise that none of our intellectual property rights would be challenged any third party.

Regulations Relating to Employment

The PRC Labor Law and the Labor Contract Law require that employers must execute written employment contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. Violations of the PRC Labor Law and the Labor Contract Law may result in the imposition of fines and other administrative sanctions, and serious violations may constitute criminal offences.

On December 28, 2012, the PRC Labor Contract Law was amended with effect on July 1, 2013 to impose more stringent requirements on labor dispatch. Under such law, dispatched workers are entitled to pay equal to that of full-time employees for equal work, but the number of dispatched workers that an employer hires may not exceed a certain percentage of its total number of employees as determined by the Ministry of Human Resources and Social Security. Additionally, dispatched workers are only permitted to engage in temporary, auxiliary or substitute work. According to the Interim Provisions on Labor Dispatch promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of dispatched workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and dispatched workers). The Interim Provisions on Labor Dispatch require employers not in compliance with the PRC Labor Contract Law in this regard to reduce the number of its dispatched workers to below 10% of the total number of its employees prior to March 1, 2016.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. The enterprise may be ordered to pay the full amount within a deadline if it fails to make adequate contributions to various employee benefit plans and may be subject to fines and other administrative sanctions.

Regulations on Foreign Currency Exchange

Under the *PRC Foreign Currency Administration Rules* promulgated on January 29, 1996 and last amended on August 5, 2008 and various regulations issued by SAFE and other relevant PRC government authorities, payment of current account items in foreign currencies, such as trade and service payments, payment of interest and dividends can be made without prior approval from SAFE by following the appropriate procedural requirements. By contrast, the conversion of RMB into foreign currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires prior approval from SAFE or its local office.

On February 13, 2015, SAFE promulgated the *Circular on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment*, effective from June 1, 2015, which cancels the requirement for obtaining approvals of foreign exchange registration of foreign direct investment and overseas direct investment from SAFE. The application for the registration of foreign exchange for the purpose of foreign direct investment and overseas direct investment may be filed with qualified banks, which, under the supervision of SAFE, may review the application and process the registration.

The Circular of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or SAFE Circular 19, was promulgated on March 30, 2015 and became effective on June 1, 2015. According to SAFE Circular 19, a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. *The Circular of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts,* or SAFE Circular 16, was promulgated and became effective on June 9, 2016. According to SAFE Circular 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self—discretionary basis, which applies to all enterprises registered in the PRC. SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

On January 26, 2017, SAFE promulgated the *Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification,* or SAFE Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profits from domestic entities to offshore entities, including (i) banks must check whether the transaction is genuine by reviewing board resolutions regarding profit distribution, original copies of tax filing records and audited financial statements, and (ii) domestic entities must retain income to account for previous years' losses before remitting any profits. Moreover, pursuant to SAFE Circular 3, domestic entities must explain in detail the sources of capital and how the capital will be used, and provide board resolutions, contracts and other proof as a part of the registration procedure for outbound investment.

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

SAFE issued *the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles*, or SAFE Circular 37, which became effective in July 2014, to replace the *Circular of the State Administration of Foreign Exchange on Issues Concerning the Regulation of Foreign Exchange in Equity Finance and Roundtrip Investments by Domestic Residents through Offshore Special Purpose Vehicles*, to regulate foreign exchange matters in relation to the use of special purpose vehicles, or SPVs, by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China. SAFE Circular 37 defines a SPV as an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, while "round trip investment" is defined as direct investment in China by PRC residents or entities through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. SAFE Circular 37 stipulates that, prior to making contributions into an SPV, PRC residents or entities be required to complete foreign exchange registration with SAFE or its local branch. In addition, SAFE promulgated the *Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment in February 2015*, which amended SAFE Circular 37 and became effective on June 1, 2015, requiring PRC residents or entities to register with qualified banks rather than SAFE in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing.

PRC residents or entities who had contributed legitimate onshore or offshore interests or assets to SPVs but had not obtained registration as required before the implementation of the SAFE Circular 37 must register their ownership interests or control in the SPVs with qualified banks. An amendment to the registration is required if there is a material change with respect to the SPV registered, such as any change of basic information (including change of the PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, and mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular 37 and the subsequent notice, or making misrepresentation on or failure to disclose controllers of the foreign-invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign-invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations. See "Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect us."

Regulations on Stock Incentive Plans

SAFE promulgated the *Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company*, or the Stock Incentive Plan Notice, in February 2012, replacing the previous rules issued by SAFE in March 2007. Pursuant to the Stock Incentive Plan Notice and other relevant rules and regulations, PRC residents participating in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and follow certain other procedures. Participants of a stock incentive plan who are PRC residents must conduct the SAFE registration and other procedures with respect to the stock incentive plan through a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution appointed by the PRC subsidiary. In addition, the PRC agent is required to update the relevant SAFE registration should there be any material change to the stock incentive plan, the PRC agent or other material changes. The PRC agent must, on behalf of the PRC residents who have the right to exercise the employee stock options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee stock options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents prior to distribution to such PRC residents.

We adopted an equity incentive plan in 2015, under which we have the discretion to award incentives and rewards to eligible participants. We have advised the recipients of awards under our equity incentive plan to handle relevant foreign exchange matters in accordance with the Stock Incentive Plan Notice. However, we cannot guarantee that all employee awarded equity-based incentives can successfully register with SAFE in full compliance with the Stock Incentive Plan Notice. See "Risk Factors—Risks Related to Doing Business in China— We may be subject to fines and legal sanctions imposed by SAFE or other Chinese government authorities and our ability to further grant restricted shares or share options to, and to adopt additional share incentive plans for, our directors and employees may be restricted if we or the participants of our share incentive plans fail to comply with PRC regulations relating to restricted shares or share options granted by offshore special purpose companies or offshore listed companies to PRC participants."

Regulations on Dividend Distribution

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the Company Law of the PRC, as amended in 2004, 2005, 2013 and 2018 respectively, the Wholly Foreign-owned Enterprise Law promulgated in 1986 and amended in 2000 and 2016 and its implementation regulations promulgated in 1990 and subsequently amended in 2001 and 2014, foreign-invested enterprises in the PRC may pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year. Under our current corporate structure, our BVI holding company may rely on dividend payments from Beijing Helitong, which is a wholly foreign-owned enterprise incorporated in China, to fund any cash and financing requirements we may have. Limitation on the ability of our PRC subsidiaries to make remittance to Beijing Helitong and on the ability of Beijing Helitong to pay dividends to us could limit our ability to access cash generated by the operations of those entities. See “Risk Factors—Risks Related to Doing Business in China— We rely on dividends and other distributions on equity paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries to make payments to us could restrict our ability to satisfy our liquidity requirements.”

Regulations Relating to Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State-Owned Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and the State Administration of Foreign Exchange, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which became effective on September 8, 2006 and was amended on June 22, 2009. These regulations, among other things, require that (i) PRC entities or individuals obtain approval from the Ministry of Commerce before they establish or control a special purpose vehicle overseas, provided that they intend to use the special purpose vehicle to acquire their equity interests in a PRC company at the consideration of newly issued share of the special purpose vehicle, or Share Swap, and list their equity interests in the PRC company overseas by listing the special purpose vehicle in an overseas market; (ii) the special purpose vehicle obtains approval from the Ministry of Commerce before it acquires the equity interests held by the PRC entities or PRC individual in the PRC company by Share Swap; and (iii) the special purpose vehicle obtains China Securities Regulatory Commission approval before it lists overseas. See “Risk Factors—Risks Related to Doing Business in China— PRC regulations regarding acquisitions impose significant regulatory approval and review requirements, which could make it more difficult for us to pursue growth through acquisitions.”

Dividend Withholding Tax

In March 2007, the National People’s Congress enacted the Enterprise Income Tax Law which became effective on January 1, 2008 and amended on February 24, 2017. According to Enterprise Income Tax Law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates, issued on January 29, 2008 and supplemented and revised on February 29, 2008, and the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income, which became effective on December 8, 2006 and applicable to income derived in any year of assessment commencing on or after April 1, 2007 in Hong Kong and in any year commencing on or after January 1, 2007 in the PRC, such withholding tax rate may be lowered to 5% if a Hong Kong enterprise is deemed the beneficial owner of any dividend paid by a PRC subsidiary by PRC tax authorities and holds at least 25% of the equity interest in that particular PRC subsidiary at all times within the 12-month period immediately prior to the distribution of the dividends. Furthermore, pursuant to the Announcement on Issues concerning “Beneficial Owners” in Tax Treaties issued on February 3, 2018 by the State Administration of Taxation, when determining the status of “beneficial owners,” a comprehensive analysis may be conducted through materials such as articles of association, financial statements, records of capital flows, minutes of board of directors, resolutions of board of directors, allocation of manpower and material resources, the relevant expenses, functions and risk assumption, loan contracts, royalty contracts or transfer contracts, patent registration certificates and copyright certificates, etc. However, even if an applicant has the status as a “beneficiary owner,” if the competent tax authority finds necessity to apply the principal purpose test clause in the tax treaties or the general anti-tax avoidance rules stipulated in domestic tax laws, the general anti-tax avoidance provisions shall apply.

Enterprise Income Tax

In December 2007, the State Council promulgated the Implementing Rules of the Enterprise Income Tax Law, which became effective on January 1, 2008. The Enterprise Income Tax Law and its relevant implementing rules (i) impose a uniform 25% enterprise income tax rate, which is applicable to both foreign-invested enterprises and domestic enterprises (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules and (iii) introduces new tax incentives, subject to various qualification criteria.

The Enterprise Income Tax Law also provides that enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore be subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The implementing rules further define the term "de facto management body" as the management body that exercises substantial and overall management and control over the production and operations, personnel, accounts and properties of an enterprise. If an enterprise organized under the laws of jurisdiction outside China is considered a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, it would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income. Second, a 10% withholding tax would be imposed on dividends it pays to its non-PRC enterprise shareholders and with respect to gains derived by its non-PRC enterprise shareholders from transfer of its shares.

On October 17, 2017, the State Administration of Taxation issued the Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source, or Bulletin 37, which replaced the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued by the State Administration of Taxation on December 10, 2009, and partially replaced and supplemented rules under the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or Bulletin 7, issued by the State Administration of Taxation on February 3, 2015. Under Bulletin 7, an "indirect transfer" of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immoveable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Pursuant to Bulletin 37, the withholding party shall declare and pay the withheld tax to the competent tax authority in the place where such withholding party is located within seven days from the date of occurrence of the withholding obligation. Both Bulletin 37 and Bulletin 7 do not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange. See "Risk Factors—Risks Related to Doing Business in China— We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a PRC establishment of a non-PRC company."

Value-Added Tax

In November 2011, the Ministry of Finance and the State Administration of Taxation promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax. In March 2016, the Ministry of Finance and the State Administration of Taxation further promulgated the Notice on Fully Promoting the Pilot Plan for Replacing Business Tax by Value-Added Tax. On March 20, 2019, the Ministry of Finance, the State Administration of Taxation and General Administration of Customs issued Announcement on Policies for Deepening the VAT Reform jointly, under which the VAT rates under the basic mechanism is 13% for the sectors such as operating and financial leases of equipment, 9% for sectors such as transportation, postal, basic telecommunication, and construction services as well as sales and leases of real property and real property rights, 0% for exported services and 6% for all remaining services, including financial services. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the modern services provided. Furthermore, according to Announcement of the State Taxation Administration on Matters relating to Expanding the Scope of the Pilot Scheme for Issuance of Special VAT Invoices by Small-Scale Taxpayers issued by State Administration on February 3, 2019, the basic mechanism may not apply to small-scale taxpayers who may pay the VAT taxes at the levy rates of 3% and 5% on the basis of their sales amount.

Southeast Asia. The kinds of currency regulation, taxation regimes and dividend restrictions imposed in China are not replicated in Singapore, Malaysia and other Southeast Asian markets in which we operate. Generally these markets are free-trade based economies, with no direct or indirect currency or similar operational barriers.

The foregoing summary does not purport to be complete and is qualified by reference to the relevant provisions of applicable law in the jurisdictions in which we operate. We believe that we are currently in compliance with all applicable laws and regulations relating to our business.

Marketing, Sales and Customer Support

Our marketing and sales activities are focused on the development of and addressing the growing demand for automation and control products, systems and services in China domestic market, Southeast Asia, India and the Middle East markets. We insist on building cooperative relationships with our customers, educating them about technological developments and reflecting their needs in our products and services.

Our sales teams consist of a complementary group of sales personnel and hardware and software engineers from a variety of disciplines to tailor products to specific customer needs. Employing a pool of skilled personnel in the early stage of a project accelerates the design and the subsequent production of a particular customized solution, typically exceeding that of our competitors. Our sales teams possess significant hands-on, industry-specific experience which permit them to do on-site process analyses, which in turn, makes the design and implementation of upgrades simpler. The result is an automation system that is more effective, efficient and reliable, which in turn leads to a truly satisfied customer.

Our sales force is organized into three principal groups, (i) regional sales, to provide business consulting, promote pre-sale activity and serve as customer contacts, (ii) customer relationship management, to manage relations with contracted customers and improve customer satisfaction by coordinating responses to the client's information requests, sale of supplemental parts or components and make customer visits, and (iii) market planning, to facilitate strategic cooperation with certain specialized manufacturers, to expand the specific fields for our products.

We identify and target market segments and select target sales opportunities within our markets and conduct sales opportunity studies to ensure that adequate sales resources are available. Sales quotas are assigned to all sales personnel according to annual sales plans. We classify market segments and target opportunities on national and regional levels. Segmentation of our markets helps us to determine our primary sales targets and to prepare monthly and quarterly sales forecasts. The sales team approves target projects, develops detailed sales promotion strategies and prepares reports on order forecasts, technical evaluation, sales budgeting expense, schedules and competition analysis. After the report has been approved, a marketing group is appointed, consisting of sales personnel and engineers. We employ marketing personnel to conduct market research, to analyze user requirements and to organize marketing communications.

Our marketing team engages in a variety of marketing activities, including:

- publishing internal research reports and customer newsletters;
- conducting seminars and conferences;
- conducting ongoing public relations programs; and
- creating and placing advertisements

We actively participate in technology-related conferences and demonstrate our products at trade shows or at exhibitions targeted at our existing and potential customers. We also evaluate a range of joint-marketing strategies and programs with our business partners in order to take advantage of their strategic relationships and resources. We also support our customers by offering field services such as maintenance and training services, which help customers to cut their costs and improve their operating efficiency.

As of June 30, 2020, we employed over 520 direct sales personnel through our subsidiaries in mainland China, Southeast Asia, the Middle East, Hong Kong and Macau.

C. Organizational Structure

The following diagram illustrates our corporate structure as of the date of this annual report. We are a holding company with no operations of our own. We conduct our operations in China mainly through our Chinese operating companies, and in Southeast Asia and the Middle East mainly through Concord and Bond Groups.

Offshore Companies

Hollysys Automation Technologies, Ltd. (British Virgin Islands)

Hollysys International Pte. Limited (100%) (Singapore)

Gifted Time Holdings Limited (100%) (British Virgin Islands)

Hollysys (Asia Pacific) Pte. Limited (100%) (Singapore)

Bond Corporation Pte Ltd (100%) (Singapore)

Concord Solutions (HK) Limited (100%) (Hong Kong)

Concord Corporation Pte Ltd (100%) (Singapore)

Bond M & E Sdn Bhd (50.9%) (Malaysia) (ii)

Bond M & E Pte Ltd (100%) (Singapore)

Bond M & E (KL) Sdn Bhd (100%) (Malaysia)

Clear Mind Limited (100%) (British Virgin Islands)

(99%)

(1%)

Hollysys Automation India Private Limited (1%)(99%) (India)

PT Hollysys Automation Indonesia (1%)(99%) (Indonesia)

Concord M Design and Engineering Company Limited (100%) (Macau)

Concord Electrical Contracting Ltd. (49%) (Qatar) (i)

Concord Corporation Pte. Ltd., Dubai branch (100%) (Dubai)

Concord Electrical Sdn. Bhd. (100%) (Malaysia)

World Hope Enterprises Limited (100%) (Hong Kong)

Chinese Companies

Beijing Helitong Science & Technology Exploration Co., Ltd. (100%) (China)

Hollysys Group Co Ltd. (100%) (China)

Shandong Lukang Pharmaceutical Engineering Design Co., Ltd. (70%) (China)

HollySys Smart Energy Technology (Beijing) Co., Ltd. (80%) (China)

Hollysys (Beijing) Investment Co.,Ltd. (100%) (China)

Beijing Hollysys Electronics Technology Co., Ltd. (100%) (China)

Xi' an Hollysys Co., Ltd. (100%) (China)

60%

10%

Beijing Hollysys Co., Ltd. (100%) (China)

60%

Beijing HollySys Technology Co., Ltd. (100%) (China)

Hangzhou Hollysys Automation Co., Ltd. (40%) (60%) (China)

10%

Cixi HollySys Precision Technology Co., Ltd. (60%)(10%)(10%) (China)

Beijing Industrial Software Co., Ltd (100%) (China)

Hangzhou Hollysys System Engineering Co., Ltd (100%) (China)

(i) On November 24, 2015, the Company established CECL to explore the market in Qatar. CCPL has a 49% direct ownership of CECL and the remaining 51% equity interest is held by a nominee shareholder. Through a series of contractual arrangements, CCPL is entitled to appoint majority of directors of CECL who have the power to direct the activities that significantly impact CECL's economic performance. Further, CCPL is entitled to 95% of the variable returns from CECL's operations. As a result, despite of its minority direct ownership of CECL arrangements, CCPL is considered the primary beneficiary of CECL.

(ii) In July 2017, BCPL, a wholly-owned Singapore subsidiary of the Company, and a Malaysian citizen (the "Trustee") entered into a trust deed, under which, 49.1% of BCPL's equity interests in BMJB, a Malaysian company, which previously was a 100% subsidiary of BCPL, was transferred to the Trustee. According to the trust deed, all of the beneficial interests in BMJB belong to BCPL and the Trustee shall hold the legal title of the transferred shares on trust for and act on behalf of BCPL absolutely. Any dividend, interest and other benefits received or receivable by the Trustee will be transferred to BCPL. The Trustee shall exercise the managerial rights and voting power in a manner directed by a prior written notice from BCPL. The Trustee shall be obligated to vote in the same manner as BCPL in the absence of any written notice. In addition, an undated Form of Transfer of Securities with the transferee's name left blank was duly executed by the Trustee and delivered to BCPL. Therefore, BCPL can transfer the 49.1% of equity interests to any party at any time without further approval by the Trustee. Accordingly, the Company believes it holds all beneficial rights, obligation and the power of the 100% equity interest in BMJB, and therefore consolidates 100% of equity interests in BMJB into its financial statements.

(iii) In August 2018, the Company agreed and transferred 100% of their equity interest in Hollysys Intelligent, a wholly owned subsidiary, to Ningbo Hollysys" in exchange for a 40% equity interest in Ningbo Hollysys. Upon the transfer of the equity interest, the Company lost control of Hollysys Intelligent and therefore, deconsolidated the subsidiary.

Our corporate headquarters are located at No. 2 Disheng Middle Road, Beijing Economic-Technological Development Area, Beijing, 100176, China. Our telephone number is (+86) 10 58981386. We maintain a website at http://www.Hollysys.com that contains information about our company, but that information is not a part of this annual report.

D. Property, Plant and Equipment

Since 2010, our principal executive offices have been located at No. 2 Disheng Middle Road, Beijing Economic-Technological Development Area, Beijing, 100176, China. At this location in Beijing, we believe we have sufficient space have ample room for substantial expansions in the future, as our needs require.

In addition, we own the prepaid land leases to the properties at the following principal locations, each of which contains principal administrative offices, sales and marketing offices, research and development facilities, and manufacturing facilities:

Location	Approximate Sq. Meters
Beijing	120,000
Hangzhou	25,000
Singapore	1,200
Malaysia	3,400

The manufacturing facilities at the Beijing and Hangzhou locations are used for the system integration production, including hardware testing instruments, auxiliary material processing, packaging and shipping, and for self-made product integration production, including inspection and testing.

ITEM 4A. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risk factors and the discussion of our business set forth in other parts of this annual report on Form 20-F.

Overview

Through our operating subsidiaries, we are one of the leading automation solutions providers in China, developing a number of core technologies and completing numerous projects utilizing a wide array of automation products. With our philosophy of sincere concern for customers and our technical innovation capabilities, we specialize in the research, development, production, sale and distribution of industrial automation for digital railway signals and information systems, e-government, motor drive transmissions and non-safety controls for nuclear power reactors.

The main channel through which we obtain our automation system business is the procurement bidding process. Customers propose their requirements and specifications via legally binding bid documents. Companies interested in obtaining the contract can respond with an appropriate bid.

We derive our revenue mainly from three operating segments including industrial automation, railway transportation and mechanical and electrical solutions. Around 82% of our total consolidated revenues derived from integrated solutions contracts we have won through the bid process. In addition, we generate revenue from sales of spare parts and component products to customers for maintenance and replacement purposes after the completion of the integrated solutions contracts, and from providing maintenance and training service, after the warranty period to customers for efficiency improvement or environment protection purpose; which tends to provide a recurring revenue stream. Spare part and component sales and services rendered are not part of the integrated solutions contracts.

The purpose of an integrated solutions contract is to furnish an automation system that provides the customer with a total solution for the automation or process control requirement being addressed. The automation system and total solution we offer, consisting of hardware, software and services, is customized to meet the customer's particular needs and technical specifications. None of the hardware, software and services has independent functionality, and therefore, is not sold separately to customers.

Order backlog of contracts presents the amount of unrealized revenue to be earned from the contracts that we have won. The following table sets forth the information regarding contracts we won during the last three fiscal years and the backlog at the dates indicated:

	Years Ended June 30,		
	2018	2019	2020
Number of new contracts won during the year	3,277	4,637	4,784
Total amount of new contracts (million)	$ 634.0	$ 724.9	$ 549.2
Average price per contract	$ 193,470	$ 156,330	$ 114,790

	Years Ended June 30,		
	2018	2019	2020
Backlog Situation:			
Contracts newly entered and unfinished (million)	$ 321.6	$ 348.3	$ 262.3
Contracts entered in prior years and unfinished (million)	$ 247.4	$ 245.9	$ 309.5
Total amount of backlog (million)	$ 569.0	$ 594.2	$ 571.8

Key Factors Affecting Our Growth, Operating Results and Financial Condition

Our future growth, operating results and financial condition will be affected by a number of factors including:

- The ability in developing and acquiring new products and systems in order to improve competitiveness, which can increase both sales revenue and margins. The success of our business depends in great measure on our ability to keep pace with or even lead changes that occur in our industry.
- The success in expanding our business in targeted emerging markets and overseas markets, which may require us to overcome domestic competition and trade barriers.

- Our ability to retain our existing customers and to obtain additional business opportunities. Since we do not have long-term purchase commitments from customers, our customers can shift to other competitors for future projects. It is important to maintain our customer base in order to sustain and expand our business.
- The success of our business also depends on securing a steady stream of new customers. In order for our business to continue to succeed and grow, it is vital to secure contracts with new customers on a regular basis.
- The ability to secure adequate engineering resources and relatively low cost engineering staff can increase our profitability and potential business prospects. One of the competitive advantages that we enjoy is the access to lower cost engineering staff as compared to those of our Western and Japan-based competitors. The plentiful supply of affordable engineering talent in China is a key element of our overall business strategy.
- Further improvement in product design and maintaining high standard of quality control, which can reduce or avoid product defects. Any product defects will result in additional costs and cause damage to our business reputation.
- The ability to secure and protect our intellectual property rights is critical, as our business is based on a number of proprietary products and systems, and we strive to strengthen and differentiate our product portfolio by developing new and innovative products and product improvements.
- The success in penetrating into the railway, conventional and nuclear power market sectors can develop revenue streams and improve margins. In addition to the traditional industrial automation business, our plan for future growth includes an increasing emphasis on rail control systems, power generation control systems and mechanical and electrical solutions both in China and internationally.
- The ability to obtain greater financial resources to match or even exceed our major competitors, in order to compete effectively with them, and to weather any extended weaknesses in the automation and control market.
- The continued growth in the Chinese and Southeast Asia industry in general. This continued growth will create more business opportunities for us, because industrial companies in Asia are our principal source of revenues.
- The ability to maintain key personnel and senior management, who will have significant impact and contribution to our future business. The ability to attract and retain additional qualified management, technical, sales and marketing personnel will be vital.
- The continuation of the preferential tax treatment and subsidies currently available to our PRC subsidiaries will be critical to our future operating results. If governmental subsidies were reduced or eliminated, our after-tax income would be adversely affected.
- The exchange rate fluctuation of RMB and SGD against US dollars will result in future translation gain or loss as most of our assets are denominated in RMB and SGD. In addition, some of our raw materials, components and major equipment are imported from overseas. In the event that the RMB and SGD appreciate against other foreign currencies, our costs will decrease and our profitability will increase. However, the impact will be the other way around if RMB and SGD depreciate against other foreign currencies.

- The COVID-19 pandemic has adversely impacted our business since the third quarter of fiscal year 2020. Among other things, the product manufacturing, logistics and fulfillment of us and certain third-party merchants and brands that cooperated with us were adversely affected due to various travel restrictions and quarantine measures imposed in the countries in which we operate. We have implemented preventative measures to protect the health and safety of our employees and made appropriate adjustments to our business operations in response to the pandemic's impact. We have seen gradual recovery of our overall business resulting from improving health statistics in China since March 2020, however, the pandemic continued to have an adverse effect on our overseas business, especially in South East Asia and South Asia. We anticipate the negative impact of the pandemic may continue on our overseas business. The duration and magnitude of the impact from the pandemic on our business will depend on numerous evolving factors that cannot be accurately predicted or assessed. For additional details on the impact of the COVID-19 outbreak, see "Item 3. Key Information—D. Risk Factors— An Outbreak of Disease or Similar Public Health Threat, or Fear of Such an Event, Could Have a Material Adverse Impact on the Company's Business, Operating Results and Financial Condition."

Critical Accounting Policies

Numbers in this *Critical Accounting Policies* section are expressed in USD thousands, except as specifically noted.

Revenue recognition

Integrated solutions contracts

Revenues generated from designing, building, and delivering customized integrated industrial automation systems are recognized over time as customer simultaneously receives and consumes the benefits provided by the Company's performance as it occurs or because the customers control the related asset as it is created or enhanced. The contracts for designing, building, and delivering customized integrated industrial automation systems are legally enforceable and binding agreements between the Company and customers. The duration of contracts depends on the contract size and ranges from six months to five years excluding the warranty period. The majority of the contract duration is longer than one year.

Revenue generated from mechanical and electrical solution contracts for the construction or renovation of buildings, rail or infrastructure facilities are also recognized over time as customer simultaneously receives and consumes the benefits provided by the Company's performance as it occurs or because the customers control the related asset as it is created or enhanced. The contracts for mechanical and electrical solution are legally enforceable and binding agreements between the Company and customers. The duration of contracts depends on the contract size and the complexity of the construction work and ranges from six months to three years excluding the warranty period. The majority of the contract duration is longer than one year.

In accordance with ASC Topic 606, *Revenue from Contract with Customers* ("ASC 606"), recognition is based on an estimate of the income earned to date, less income recognized in earlier periods. Extent of progress toward completion is measured using the cost-to-cost method where the progress (the percentage complete) is determined by dividing costs incurred to date by the total amount of costs expected to be incurred for the integrated solutions contracts. The Company's estimates of total costs expected to be incurred for an integrated solutions contract include assumptions regarding the Company's future effort or input such as direct costs of equipment and materials and direct labor costs. Significant estimation uncertainty exists due to the long construction periods and sensitivity of these assumptions to extent of progress towards completion and estimated total costs of integrated solutions contracts, as both impact revenue and gross profit realization. The significant assumptions are forward-looking and could be affected by future economic and market conditions and changes in the level of efforts and costs required to complete the integrated solutions contracts. The total costs incurred may not always be proportionate to the entity's progress in satisfying their performance obligations. Changes in the estimated total costs affects the revenue recognized in the current period and in future periods. Provisions, if any, are made in the period when anticipated losses become evident on uncompleted contracts.

The Company reviews and updates the estimated total costs of the contracts at least annually. Revisions to contract revenue and estimated total costs of the contracts are made in the period in which the facts and circumstances that cause the revision become known and are accounted for as changes in estimates. Unapproved change orders are considered claims. Claims are recognized only when it has been awarded by customers. Excluding the impact of change orders, if the estimated total costs of integrated solutions contracts, which were revised during the years ended June 30, 2018, 2019 and 2020, had been used as a basis of recognition of integrated solutions contracts revenue since the contract commencement, net income for the years ended June 30, 2018, 2019 and 2020 would have been decreased by $10,466, $14,019, and $14,181, respectively; basic net income per share for years ended June 30, 2018, 2019 and 2020 would have been decreased by $0.17, $0.23, and $0.23, respectively; and diluted net income per share for the years ended June 30, 2018, 2019 and 2020, would have decreased by $0.17, $0.23, and $0.23, respectively. Revisions to the estimated total costs for the years ended June 30, 2018, 2019 and 2020 were made in the ordinary course of business.

The Company combines a group of contracts as one project if they are closely related and are, in substance, parts of a single project with an overall profit margin. The Company segments a contract into several projects, when they are of different business substance, for example, with different business negotiation, solutions, implementation plans and margins.

Revenue in excess of billings on the contracts is recorded as costs and estimated earnings in excess of billings. Billings in excess of revenues recognized on the contracts are recorded as deferred revenue until the above revenue recognition criteria are met. Recognition of accounts receivable and costs and estimated earnings in excess of billings are discussed below.

The Company generally recognizes 100% of the contractual revenue when the customer acceptance has been obtained and no further major costs are estimated to be incurred, and normally this is also when the warranty period commences. Revenues are presented net of value-added tax collected on behalf of the government.

Product sales

The Company's products mainly include hardware and software. Revenue generated from sales of products is recognized when control of promised goods is transferred to the Company's customers in an amount of consideration to which an entity expects to be entitled to in exchange for those goods. Revenues are presented net of value-added tax collected on behalf of the government.

Service rendered

The Company mainly provides the following services:

The Company provides maintenance service which is generally completed onsite at the customers' premises. Revenue is recognized over time by using the cost-to-cost method to measure the progress towards the completion of the performance obligation as the customer simultaneously receives and consumes the benefits from the services rendered by the Company. As costs incurred represent work performed, the Company believes this method best depicts transfer of control of the asset to the customer. Revenues are presented net of value-added tax collected on behalf of the government.

The Company also separately sells extended warranties to their integrated solution customers for a fixed period. Such arrangements are negotiated separately from the corresponding integrated solution system and are usually entered into upon the expiration of the warranty period attached to the integrated solutions contracts. During the extended warranty period, the Company is responsible for addressing issues related to the system. Part replacement is not covered in such services. The Company uses time elapsed to measure the progress toward complete satisfaction of the performance obligation and recognizes revenue ratably over the contractual term. Revenues are presented net of value-added tax collected on behalf of the government.

Excluding the impact of change orders, if the estimated total costs of service contracts, which were revised during the year ended June 30, 2020, had been used as a basis of recognition of service contract revenue since the contract commencement, net income for the year ended June 30, 2019 and 2020 would have been decreased by $2,641 and $4,603; respectively, basic net income per share for year ended June 30, 2019 and 2020 would have been decreased by $0.04 and $0.08, respectively; and diluted net income per share for the year ended June 30, 2019 and 2020, would have decreased by $0.04 and $0.08, respectively. Revisions to the estimated total costs for the year ended June 30, 2020 were made in the ordinary course of business.

Contract assets

Contract assets include amounts that represent the rights to receive payment for goods or services that have been transferred to the customer, with the rights conditional upon something other than the passage of time. Accordingly, the Company include the following in the contract assets: (i) unbilled amounts resulting from revenue recognized exceeding amounts billed to customers for integrated solutions contracts and maintenance service contracts using the cost-to-cost method, which are recorded in the balance sheet as costs and estimated earnings in excess of billing; and (ii) accounts receivable retention amounts which were held by customers from Concord and Bond Groups upon the issuance of the final completion certificate and completion of the defects liability period.

Performance of the integrated solutions contracts will often extend over long periods and the Company's right to receive payments depends on its performance in accordance with the contractual terms. There are different billing practices in the PRC, overseas operating subsidiaries and the VIE (Concord and Bond Groups). For the Company's PRC subsidiaries, billings are issued based on milestones specified in the contracts negotiated with customers. In general, there are four milestones: 1) project commencement, 2) system manufacturing and delivery, 3) installation, trial-run and customer acceptance, and 4) end of the warranty period. The amounts to be billed at each milestone are specified in the contract. All integrated solutions contracts have the first milestone, but not all contracts require prepayments. The length of each interval between two continuous billings under an integrated solutions contract varies depending on the duration of the contract (under certain contracts, the interval lasts more than a year) and the last billing to be issued for an integrated solutions contract is scheduled at the end of a warranty period. There are no significant financing components in the integrate solutions contracts.

For Concord and Bond Groups, billing claims rendered are subject to the further approval and certification of the customers or their designated consultants. Payments are made to Concord or Bond Groups based on the certified billings according to the payment terms mutually agreed between the customers and Concord or Bond Groups. Certain amounts are retained by the customer and payable to Concord and Bond Groups upon the issuance of the final completion certificate and completion of the defects liability period. The retained amounts are recorded as accounts receivable retention.

Contract liabilities

Contract liabilities include the amounts that reflect obligations to provide goods or services for which payment has been received. Contract liabilities are presented in the balance sheet as deferred revenue.

The Company receives prepayments for integrated solutions contracts, product sales and service contracts for goods or services to be provided in the future. Prepayments received are recorded as deferred revenue, which is recognized as revenue based on the revenue recognition policies disclosed above for integrated solutions contracts, product sales and services rendered.

Accounts receivable, costs and estimated earnings in excess of billings and accounts receivable retention

The carrying value of the Company's accounts receivable, costs and estimated earnings in excess of billings and accounts receivable retention, net of the allowance for doubtful accounts, represents their estimated net realizable value. An allowance for doubtful accounts is recognized when it is probable that the Company will not collect the amount and is written off in the period when deemed uncollectible. The Company periodically reviews the status of contracts and decides how much of an allowance for doubtful accounts should be made based on factors surrounding the credit risk of customers and historical experience. The Company does not require collateral from its customers and does not charge interest for late payments by its customers.

Warranties

Warranties represent a major term under integrated solutions contracts and maintenance service contracts, which will last, in general, for one to three years or otherwise specified in the terms of the contract. The Company accrues warranty liabilities under a service contract as a percentage of revenue recognized, which is derived from its historical experience, in order to recognize the warranty cost for the related contract throughout the contract period.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired. The Company assesses goodwill for impairment in accordance with ASC subtopic 350-20, Intangibles – Goodwill and Other ("ASC 350-20"), which requires that goodwill is not amortized but to be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20.

The Company's goodwill outstanding at June 30, 2020 was related to the acquisitions of Beijing Hollysys Industrial Software Company Ltd ("Hollysys Industrial Software") and Shandong Lukang.

The Company has the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test in accordance with ASC 350-20. If the Company believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, the Company considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss.

The Company elected to assess goodwill for impairment using the two-step process for Concord Group for the years ended June 30, 2018 and 2019, with the assistance of a third-party appraiser. The judgment in estimating the fair value of Concord Group includes forecasts of the amount and timing of expected future cash flows, which are based on management's best estimates of forecasted revenue, gross profit, operating expenses, future capital expenditures and working capital levels, as well as the discount rate, which is determined using the Weighted Average Cost of Capital and Capital Asset Pricing Model approach and the selection of comparable companies operating in similar businesses. The carrying amount of Concord Group exceeded its fair value as of June 30, 2019, and a goodwill impairment charge of $11,623 was recorded in the consolidated statement of comprehensive income for the year ended June 30, 2019 based on results of the second step of the goodwill impairment test.

Due to downward revision of forecasted future profits, the Company determined it was more likely than not that an impairment existed within the Bond Group reporting unit and performed a quantitative goodwill impairment test as of June 30, 2020. The Company performed the two-step quantitative goodwill impairment test with the assistance of an independent third-party appraiser and estimated the fair value of the reporting unit using a discounted cash flow approach.

Significant management judgment and estimation are involved in forecasting the amount and timing of expected future cash flows and the underlying assumptions used in the discounted cash flow approach to determine the fair value of the Bond Group reporting unit. In particular, the fair value estimate is sensitive to significant assumptions, such as forecasted revenue growth rates, gross profit margins and discount rates, which is determined using the Weighted Average Cost of Capital and Capital Asset Pricing Model and the selection of comparable companies operating in similar businesses. These significant assumptions are forward looking and could be materially affected by future market or global economic conditions. As a result, the Company recorded a full impairment charge of US$35,767 attributable to its Bond Group reporting unit.

There are uncertainties surrounding the amount and timing of future expected cash flows as they may be impacted by negative events such as uncertainty of the impact of COVID 19 pandemic, a slowdown in the mechanical and electrical engineering sector, deteriorating economic conditions in the geographical areas Bond Group operates in, increasing competitive pressures and fewer than expected mechanical and electrical solution contracts awarded to Bond Group. These events can negatively impact demand for Bond Group's services and result in actual future cash flows being less than forecasted or delays in the timing of when those cash flows are expected to be realized. Further, the timing of when actual future cash flows are received could differ from the Company's estimates, which do not factor in unexpected delays in project commencement or execution.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

The Company adopted ASC 740, *Income Taxes* ("ASC 740"), which clarifies the accounting and disclosure for uncertainty in income taxes. Interests and penalties arising from underpayment of income taxes shall be computed in accordance with the related tax laws.

Recent accounting pronouncements

Standards Effective in Future Years

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. The guidance requires to present assets held at amortized cost and available for sale debt securities net of the amount expected to be collected. The guidance requires the measurement of expected credit losses to be based on relevant information from past events, including historical experiences, current conditions and reasonable and supportable forecasts that affect collectability. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2019 and early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Different components of the guidance require modified retrospective or prospective adoption. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which clarifies that receivables arising from operating leases should be accounted for in accordance with ASC 842, *Leases* (“ASC 842”) instead of ASC Subtopic 326-20. Based on financial instruments currently held by the Company, the adoption of ASU 2016-13 will primarily impact accounts receivable, costs and estimated earnings in excess of billings, accounts receivable retention, amount due from related parties and other receivables. The Company is currently evaluating this guidance and the impact on its consolidated financial statements. The Company expects to recognize credit losses earlier and in higher amounts for its accounts receivables, costs and estimated earnings in excess of billing and accounts receivable retention after adopting ASU 2016-13.

In January 2017, the FASB issued ASU No. 2017-04 (“ASU 2017-04”), *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. This standard is effective for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating this guidance and the impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13*, Fair Value Measurement (Topic 820), Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. The guidance modifies and enhances the disclosure requirements for fair value measurements. This update is effective in fiscal years, including interim periods, beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating this guidance and the impact on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *“Simplifying the Accounting for Income Taxes,”* as part of its Simplification Initiative to reduce the cost and complexity in accounting for income taxes. This standard removes certain exceptions related to the approach for intra period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. It also amends other aspects of the guidance to help simplify and promote consistent application of GAAP. The guidance is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating this guidance and the impact on its consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815).* The amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendments also clarify that for the purpose of applying paragraph 815-10-15-141(a) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options. The amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The Company is currently evaluating the amendments and the impact on their consolidated financial statements.

A. Operating Results

The following are some financial highlights for the fiscal year ended June 30, 2020:

- Total assets increased by $51.4 million, from $1,309.4 million as of June 30, 2019, to $1,360.8 million as of June 30, 2020. The increase was mainly due to an increase of $179.8 million in time deposits with original maturities over three months, which was partially offset by $43.7 million decrease in cash and cash equivalents, $40.1 million decrease in accounts receivables and $35.6 million decrease in goodwill.
- Cash and cash equivalents decreased by $43.7 million, from $332.5 million as of June 30, 2019, to $288.8 million as of June 30, 2020. The decrease was mainly due to $187.6 million net cash used in investing activities and $18.2 million net cash used in financing activities, partially offset by $175.1 million cash generated from operating activities.
- Accounts receivables at June 30, 2020 were $242.4 million, a decrease of $40.1 million, or 14.2%, compared to $282.6 million at June 30, 2019.
- Cost and estimated earnings in excess of billings as of June 30, 2020, were $186.9 million compared to $198.0 million as of June 30, 2019, representing a decrease of $11.1 million, or 5.6%.
- Inventory increased by $5.2 million, or 12.2%, from $43.0 million as of June 30, 2019, to $48.2 million as of June 30, 2020.
- Property, plant and equipment increased by $2.0 million, or 2.7%, from $76.0 million as of June 30, 2019, to $78.1 million as of June 30, 2020.
- Investments in equity investees increased by $0.7 million, or 1.8%, from $40.4 million as of June 30, 2019, to $41.1 million as of June 30, 2020.

- Total liabilities increased by $9.7 million or 2.7% from $362.3 million at June 30, 2019, to $371.9 million as of June 30, 2020. The increase in liabilities was mainly due to an increase of $7.1 million in accounts payable, an increase of $5.8 million in operating lease liability and an increase of $2.3 million in construction costs payable, offset by $14.8 million decreased in long-term bank loans.
- Short-term bank loans decreased by $1.9 million, from $1.9 million at June 30, 2019, to nil at June 30, 2020.
- Accounts payables increased by $7.1 million, or 6.4% from $110.4 million at June 30, 2019, to $117.5 million at June 30, 2020.
- Deferred revenue decreased by $2.1 million, or 1.5%, from $141.4 million at June 30, 2019, to $139.2 million at June 30, 2020.
- Deferred tax assets were $8.9 million as of June 30, 2020. Based on the Company's historical operating results and order backlog, the Company believes that it is more than likely that the deferred tax assets net of valuation allowance would be realized.

Comparison of Fiscal Years Ended June 30, 2020 and 2019

Revenues: For the fiscal year ended June 30, 2020, revenues amounted to $503.3 million, a decrease of $67.0 million, compared to $570.3 million for the prior fiscal year, representing a decrease of 11.7%. The reason of such decrease was mainly due to the delay of project execution and contract bidding caused by COVID-19.

Integrated solutions contracts revenue accounted for $414.3 million of revenues, a decrease of $53.1 million or 11.4%, compared to $467.4 million for the prior fiscal year. The decrease in integrated revenues was mainly composed of a decrease of $66.2 million or 52.0% in electrical solutions, decrease of $2.6 million or 1.8% in rail transportation projects, offset by an increase of $15.8 million or 8.2% in industrial automation.

In the fiscal year ended June 30, 2020, $20.1 million of revenues was generated from product sales, a decrease of $13.0 million, or 39.1% compared to $33.1 million in product sales revenue for the prior year.

In the fiscal year ended June 30, 2020, $68.9 million of revenues was generated from service rendered, a decrease of $1.0 million, or 1.4% compared to $69.9 million in service revenue for the prior year.

The Company's revenues by segments were as follows:

(In USD millions)

	Fiscal year ended June 30,			
	2019		2020	
	$	% of Revenues	$	% of Revenues
Industrial Automation	233.8	41.0%	240.0	47.7%
Rail Transportation	208.9	36.6%	201.3	40.0%
Mechanical and Electrical Solution	127.6	22.4%	62.0	12.3%
Total	**570.3**	**100.0%**	**503.3**	**100.0%**

Order Backlog: An important measure of the stability and growth of the Company's business is the size of its order backlog, which represents the total amount of unrecognized contract revenue associated with existing contracts. Our order backlog as of June 30, 2020 amounted to $571.8 million, representing a decrease of $22.4 million, or 3.8%, compared to $594.2 million as of June 30, 2019.

Of the total order backlog as of June 30, 2020, the unrecognized revenue associated with new contracts signed in the fiscal year 2020 was $262.3 million and the amount brought forward from prior periods was $309.5 million, comparing to the total backlog as of June 30, 2019 of $348.3 million from new contracts signed in fiscal year 2019, and $245.9 million from contracts carried forward from prior year.

Cost of revenues: Mirroring the categories of revenues, the cost of revenues can also be divided into three components including cost of integrated solutions contracts, cost of products sold and cost of service rendered. For the fiscal year ended June 30, 2020, the total cost of revenues amounted to $312.8 million, a decrease of $46.4 million, or 12.9%, compared to $359.2 million for the prior fiscal year. The decrease was due to $43.7 million decrease in the cost of integrated solutions contracts, a decrease of $2.1 million in the cost of products sold, and a decrease of $0.6 million in the cost of service rendered.

The cost of integrated solutions contracts revenue consists primarily of three components: cost of equipment and materials, labor costs and other manufacturing expenses including but not limited to detecting expenses, and technology service fees, all of which are incurred during the designing, building and delivering customized automation solutions process to customers. For the fiscal year ended June 30, 2020, the total cost of integrated solutions contracts was $281.8 million, compared to $325.5 million for the prior fiscal year, representing a decrease of $43.7 million, or 13.4%. The decrease was primarily due to a decrease of $6.6 million in cost of equipment and materials, a decrease of $28.9 million in labor cost, and a decrease of $8.1 million in other manufacturing expenses. Of the total cost of integrated solutions contract revenue for the fiscal year 2020, cost of equipment and materials accounted for $187.0 million, compared to $193.6 million for the prior fiscal year; labor cost accounted for $56.4 million, compared to $85.4 million for the prior fiscal year; and other manufacturing expenses accounted for $38.4 million, compared to $46.5 million for the prior fiscal year. Of the total integrated solutions contracts revenue for the fiscal year 2020, cost of equipment and materials accounted for 45.1%, compared to 41.4% for the prior fiscal year; labor cost accounted for 13.6%, compared to 18.3% for the prior fiscal year; and other manufacturing expenses accounted for 9.3%, compared to 10.0% for the prior fiscal year. The cost components of integrated solutions contracts were determined and varied according to requirements of different customers.

Sales of products mainly represent sales of spare parts (either company manufactured or purchased from outside vendors) to customers for maintenance and replacement purposes. Given the fact that the products purchased from outside vendors have different functions and capabilities from our self-made products, we decide whether to purchase or manufacture the necessary products based on the needs and preferences of different customers while considering the efficiency factor. Therefore, as a percentage of the cost of products sold, the self-made products and purchased products have varied significantly from time to time. The cost of products sold for the fiscal year ended June 30, 2020 was $5.5 million, a decrease of $2.1 million, compared to $7.6 million for the prior fiscal year.

As for the cost of the service revenue, our employees spend time and incur expenses while they are with the customers. From time to time, materials costs related to the service are incurred, especially for providing extended warranty services. The cost of service revenue for fiscal year ended June 30, 2020 was $25.5 million, a decrease of $0.6 million, compared to $26.1 million for the prior fiscal year.

Gross margin: For the fiscal year ended June 30, 2020 as a percentage of total revenues, the overall gross margin was 37.9%, compared to 37.0% for the prior fiscal year. The gross margin for integrated solutions contracts was 32.0% for the year ended June 30, 2020, compared to 30.4% for the prior year. The increase in gross margin for integrated solutions contracts was mainly due to our different sales mix during the fiscal year 2020. The gross margin for products sold was 72.9% for the fiscal year ended June 30, 2020, compared to 77.1% for the prior fiscal year. The gross margin for service provided was 63.0% for the fiscal year ended June 30, 2020, compared to 62.7% for the prior fiscal year.

Selling expenses: Selling expenses mainly consist of compensation, traveling and administrative expenses related to marketing, sales and promotion activities incurred by the Company's marketing departments. Selling expenses were $30.6 million for the fiscal year ended June 30, 2020, an increase of 5.9%, or $1.7 million, compared to $28.9 million for the prior fiscal year. As a percentage of total revenues, selling expenses accounted for 6.1% and 5.1% for the fiscal years ended June 30, 2020 and 2019, respectively.

General and administrative expenses: General and administrative expenses mainly include compensation, traveling and other administrative expenses of non-sales-related departments, such as the finance department, information department and human resources department. General and administrative expenses amounted to $39.1 million for the fiscal year ended June 30, 2020, representing a decrease of $1.6 million, or 3.9%, compared to $40.7 million for the prior fiscal year, which was primarily due to decrease of bad debt allowance. As a percentage of total revenues, general and administrative expenses were 7.8% and 7.1% for the fiscal years ended June 30, 2020 and 2019, respectively.

Goodwill impairment charge: The Company perform goodwill impairment test on June 30 in each year, to judge whether the carrying amount of goodwill exceeded its fair value. The Company concluded that the carrying amount of goodwill associated with Bond Group and Concord Group was less than fair value of the goodwill and recorded a goodwill impairment charge of $35.8 million and 11.6 million for the fiscal years ended June 30, 2020 and 2019, respectively.

Research and development expenses: Research and development expenses represent mostly employee compensation, materials consumed and experiment expenses related to specific new product research and development, as well as any expenses incurred for basic research on advanced technologies. For the fiscal year ended June 30, 2020, research and development expenses were $41.9 million, representing an increase of $4.9 million, or 13.1%, compared to $37.0 million for the prior fiscal year. As a percentage of total revenues, research and development expenses were 8.3% and 6.5% for the fiscal years ended June 30, 2020 and 2019, respectively.

VAT refunds and government subsidies: The state tax administration in China provides refunds out of the value added tax ("VAT") that they collect in order to encourage the research and development efforts of certain qualified enterprises. Some of our subsidiaries in China received such refunds. All VAT refunds, that have no further conditions to be met, are recognized in the consolidated statements of comprehensive income when cash or approval from the tax authorities is received. For the fiscal year ended June 30, 2020, VAT refunds were $21.6 million, compared to $25.8 million for the prior fiscal year, representing a decrease of $4.2 million, or 16.4%. As a percentage of total revenues, VAT refunds were 4.3% and 4.5% for the fiscal years ended June 30, 2020 and 2019, respectively.

The local governments in China also provide financial subsidies to encourage research and development efforts of certain qualified enterprises. Some of our subsidiaries received such subsidies. For the government subsidies that have no further conditions to be met, the funds received are recognized in the consolidated statements of comprehensive income; for the subsidies that have certain operating conditions yet to be met, the funds received are recorded as liabilities and will be released to income when the conditions are met. Subsidy income from the government amounted to $4.7 million and $4.9 million for the fiscal years ended June 30, 2020 and 2019, respectively, a decrease of $0.2 million, or 4.1%.

Income from operations: Income from operations decreased by $54.2 million, from $123.6 million for the fiscal year ended June 30, 2019 to $69.4 million for the fiscal year ended June 30, 2020. The decrease was mainly due to the increase of $24.1 million in goodwill impairment charge and the decrease of $20.6 million in the gross profit.

Interest income: For the fiscal year ended June 30, 2020, interest income increased by $1.2 million, or 10.3% from $11.8 million for the prior year, to $13.1 million for the current period. As a percentage of total revenue, interest income accounted for 2.6% and 2.1% for the fiscal years ended June 30, 2020 and 2019, respectively. The interest income was mainly earned from time deposits with original maturities over three months and cash and cash equivalents.

Interest expenses: For the fiscal year ended June 30, 2020, interest expenses decreased by $0.3 million, or 46.8% from $0.6 million for the prior year, to $0.3 million for the current period, mainly due to full repayment of the convertible bond. As a percentage of total revenue, interest expenses accounted for 0.1% and 0.1% for the fiscal years ended June 30, 2020 and 2019, respectively. The interest expenses were incurred by the short-term and long-term loans/bonds we had.

Other income (expenses), net: For the fiscal year ended June 30, 2020, the other income (expenses), net increased by $2.0 million from $2.7 million for the prior year, to $4.7 million for the current period.

Income tax expenses: For the fiscal year ended June 30, 2020, the Company's income tax expense was $18.2 million for financial reporting purposes, a decrease of nil, as compared to $18.2 million for the prior year. The effective tax rate for the current year is 18.6%, as compared to 12.7% for the prior year.

Net income attributable to non-controlling interests: The non-controlling interests of the Company include non-controlling shareholders' interests in each subsidiary. The net loss attributable to non-controlling interest amounted to $0.1 million for the fiscal year ended June 30, 2020 and the net income attributable to non-controlling interest amounted to $0.3 million for the prior year.

Net income and earnings per share attributable to Hollysys: For the fiscal year ended June 30, 2020, net income attributable to Hollysys amounted to $79.4 million, representing a decrease of $45.9 million, as compared to $125.3 million for the prior year. The basic and diluted earnings per share were $1.31 and $1.31 for the year ended June 30, 2020, as compared to $2.07 and $2.05 for the prior year, representing a decrease of $0.76 and $0.74, respectively. The decrease was primarily due to the lower net income attributable to Hollysys compared to fiscal 2019.

Comparison of Fiscal Years Ended June 30, 2019 and 2018

Revenues: For the fiscal year ended June 30, 2019, revenues amounted to $570.3 million, an increase of $29.6 million, compared to $540.8 million for the prior fiscal year, representing an increase of 5.5%.

Integrated solutions contracts revenue accounted for $467.4 million of revenues, an increase of $0.9 million or 0.2%, compared to $466.5 million for the prior fiscal year. The increase in integrated revenues was mainly composed of an increase of $12.9 million or 7.2% in industrial automation, an increase of $2.3 million or 1.9% in electrical solutions, offset by a decrease of $14.3 million or 8.8% in rail transportation projects.

In the fiscal year ended June 30, 2019, $33.1 million of revenues was generated from product sales, a decrease of $7.1 million, or 17.7% compared to $40.2 million in product sales revenue for the prior year.

In the fiscal year ended June 30, 2019, $69.9 million of revenues was generated from service rendered, an increase of $35.8 million, or 105.0% compared to $34.1 million in service revenue for the prior year.

The Company's revenues by segments were as follows:

(In USD millions)

	Fiscal year ended June 30,			
	2018		**2019**	
	$	**% of Revenues**	**$**	**% of Revenues**
Industrial Automation	224.8	41.6%	233.8	41.0%
Rail Transportation	190.6	35.2%	208.9	36.6%
Mechanical and Electrical Solution	125.4	23.2%	127.6	22.4%
Total	**540.8**	**100.0%**	**570.3**	**100.0%**

Order Backlog: An important measure of the stability and growth of the Company's business is the size of its order backlog, which represents the total amount of unrecognized contract revenue associated with existing contracts. Our order backlog as of June 30, 2019 amounted to $594.2 million, representing an increase of $25.2 million, or 4.4%, compared to $569.0 million as of June 30, 2018.

Of the total order backlog as of June 30, 2019, the unrecognized revenue associated with new contracts signed in the fiscal year 2019 was $348.3 million and the amount brought forward from prior periods was $245.9 million, comparing to the total backlog as of June 30, 2018 of $321.6 million from new contracts signed in fiscal year 2018, and $247.4 million from contracts carried forward from prior year.

Cost of revenues: Mirroring the categories of revenues, the cost of revenues can also be divided into three components including cost of integrated solutions contracts, cost of products sold and cost of service rendered. For the fiscal year ended June 30, 2019, the total cost of revenues amounted to $359.2 million, an increase of $24.3 million, or 7.3%, compared to $334.9 million for the prior fiscal year. The increase was due to $11.3 million increase in the cost of integrated solutions contracts, an increase of $16.2 million in the cost of service rendered, partially offset by $3.2 million decrease in the cost of products sold

The cost of integrated solutions contracts revenue consists primarily of three components: cost of equipment and materials, labor costs and other manufacturing expenses including but not limited to detecting expense, technology service fee, all of which incurred during the designing, building and delivering customized automation solutions process to customers. For the fiscal year ended June 30, 2019, the total cost of integrated solutions contracts was $325.5 million, compared to $314.2 million for the prior fiscal year, representing an increase of $11.3 million, or 3.6%. The increase was primarily due to an increase of $6.4 million in cost of equipment and materials, an increase of $3.2 million in labor cost, and an increase of $1.7 million in other manufacturing expenses. Of the total cost of integrated solutions contract revenue for the fiscal year 2019, cost of equipment and materials accounted for $193.6 million, compared to $187.2 million for the prior fiscal year; labor cost accounted for $85.4 million, compared to $82.1 million for the prior fiscal year; and other manufacturing expenses accounted for $46.5 million, compared to $44.9 million for the prior fiscal year. Of the total integrated solutions contracts revenue for the fiscal year 2019, cost of equipment and materials accounted for 41.4%, compared to 40.1% for the prior fiscal year; labor cost accounted for 18.3%, compared to 17.6% for the prior fiscal year; and other manufacturing expenses accounted for 10.0%, compared to 9.6% for the prior fiscal year. The cost components of integrated solutions contracts were determined and varied according to requirements of different customers.

Sales of products mainly represent sales of spare parts (either company manufactured or purchased from outside vendors) to customers for maintenance and replacement purposes. Given the fact that the products purchased from outside vendors have different functions and capabilities from our self-made products, we decide whether to purchase or manufacture the necessary products based on the needs and preferences of different customers while considering the efficiency factor. Therefore, as a percentage of the cost of products sold, the self-made products and purchased products have varied significantly from time to time. The cost of products sold for the fiscal year ended June 30, 2019 was $7.6 million, a decrease of $3.2 million, compared to $10.8 million for the prior fiscal year.

As for the cost of the service revenue, our employees spend time and incur expenses while they are with the customers. From time to time, materials costs related to the service are incurred, especially for providing extended warranty services. The cost of service revenue for fiscal year ended June 30, 2019 was $26.1 million, an increase of $16.2 million, compared to $9.9 million for the prior fiscal year.

Gross margin: For the fiscal year ended June 30, 2019 as a percentage of total revenues, the overall gross margin was 37.0%, compared to 38.1% for the prior fiscal year. The gross margin for integrated solutions contracts was 30.4% for the year ended June 30, 2019, compared to 32.6% for the prior year. The decrease in gross margin for integrated solutions contracts was mainly due to our different sales mix during the fiscal year 2019. The gross margin for products sold was 77.1% for the fiscal year ended June 30, 2019, compared to 73.2% for the prior fiscal year. The gross margin for service provided was 62.7% for the fiscal year ended June 30, 2019, compared to 71.0% for the prior fiscal year.

Selling expenses: Selling expenses mainly consist of compensation, traveling and administrative expenses related to marketing, sales and promotion activities incurred by the Company's marketing departments. Selling expenses were $28.9 million for the fiscal year ended June 30, 2019, an increase of 6.5%, or $1.8 million, compared to $27.2 million for the prior fiscal year. As a percentage of total revenues, selling expenses accounted for 5.1% and 5.0% for the fiscal years ended June 30, 2019 and 2018, respectively.

General and administrative expenses: General and administrative expenses mainly include compensation, traveling and other administrative expenses of non-sales-related departments, such as the finance department, information department and human resources department. General and administrative expenses amounted to $40.7 million for the fiscal year ended June 30, 2019, representing a decrease of $5.6 million, or 12.1%, compared to $46.3 million for the prior fiscal year, which was primarily due to decrease of bad debt allowance. As a percentage of total revenues, general and administrative expenses were 7.1% and 8.6% for the fiscal years ended June 30, 2019 and 2018, respectively.

Goodwill impairment charge: The Company perform goodwill impairment test on June 30 in each year, to judge whether the carrying amount of goodwill exceeded its fair value. The Company concluded that the carrying amount of goodwill associated with Concord Group was less than fair value of the goodwill and recorded a goodwill impairment charge of $11,623 and nil for the fiscal years ended June 30, 2019 and 2018, respectively.

Research and development expenses: Research and development expenses represent mostly employee compensation, materials consumed and experiment expenses related to specific new product research and development, as well as any expenses incurred for basic research on advanced technologies. For the fiscal year ended June 30, 2019, research and development expenses were $37.0 million, representing an increase of $0.4 million, or 1.1%, compared to $36.6 million for the prior fiscal year. As a percentage of total revenues, research and development expenses were 6.5% and 6.8% for the fiscal years ended June 30, 2019 and 2018, respectively.

VAT refunds and government subsidies: The state tax administration in China provides refunds out of the value added tax ("VAT") that they collect in order to encourage the research and development efforts of certain qualified enterprises. Some of our subsidiaries in China received such refunds. All VAT refunds, that have no further conditions to be met, are recognized in the statements of comprehensive income when cash or approval from the tax authorities is received. For the fiscal year ended June 30, 2019, VAT refunds were $25.8 million, compared to $19.7 million for the prior fiscal year, representing an increase of $6.2 million, or 31.4%. As a percentage of total revenues, VAT refunds were 4.5% and 3.6% for the fiscal years ended June 30, 2019 and 2018, respectively.

The local governments in China also provide financial subsidies to encourage research and development efforts of certain qualified enterprises. Some of our subsidiaries received such subsidies. For the government subsidies that have no further conditions to be met, the funds received are recognized in the statements of comprehensive income; for the subsidies that have certain operating conditions yet to be met, the funds received are recorded as liabilities and will be released to income when the conditions are met. Subsidy income from the government amounted to $4.9 million and $4.8 million for the fiscal years ended June 30, 2019 and 2018, respectively, an increase of $0.1 million, or 2.2%.

Income from operations: Income from operations increased by $3.4 million, from $120.2 million for the fiscal year ended June 30, 2018 to $123.6 million for the fiscal year ended June 30, 2019. The increase was mainly due to the increase of $5.3 million in the gross profit.

Interest income: For the fiscal year ended June 30, 2019, interest income increased by $4.5 million, or 61.8% from $7.3 million for the prior year, to $11.8 million for the current period. As a percentage of total revenue, interest income accounted for 2.1% and 1.4% for the fiscal years ended June 30, 2019 and 2018, respectively. The interest income was mainly earned from time deposits with original maturities over three months and cash and cash equivalents.

Interest expenses: For the fiscal year ended June 30, 2019, interest expenses decreased by $0.1 million, or 16.9% from $0.7 million for the prior year, to $0.6 million for the current period. As a percentage of total revenue, interest expenses accounted for 0.1% and 0.1% for the fiscal years ended June 30, 2019 and 2018, respectively. The interest expenses were incurred by the short-term and long-term loans/bonds we had.

Other income (expenses), net: For the fiscal year ended June 30, 2019, the other income (expenses), net decreased by $1.6 million from $4.3 million for the prior year, to $2.7 million for the current period.

Income tax expenses: For the fiscal year ended June 30, 2019, the Company's income tax expense was $18.2 million for financial reporting purposes, a decrease of $4.0 million, as compared to $22.2 million for the prior year. The effective tax rate for the current year is 12.7%, as compared to 17.1% for the prior year.

Net income attributable to non-controlling interests: The non-controlling interests of the Company include non-controlling shareholders' interests in each subsidiary. The net income attributable to non-controlling interest amounted to $0.3 million and $0.3 million for the fiscal year ended June 30, 2019 and 2018, respectively.

Net income and earnings per share attributable to Hollysys: For the fiscal year ended June 30, 2019, net income attributable to Hollysys amounted to $125.3 million, representing an increase of $18.1 million, as compared to $107.2 million for the prior year. The basic and diluted earnings per share were $2.07 and $2.05 for the year ended June 30, 2019, as compared to $1.77 and $1.75 for the prior year, representing an increase of $0.30 and $0.30, respectively. The increase was primarily due to the higher net income attributable to Hollysys compared to fiscal 2018.

B. Liquidity and Capital Resources

As of June 30, 2020, we had available lines of credit from various banks in the PRC, Singapore and Malaysia in an aggregate amount of $299.3 million, of which $47.7 million was utilized and $251.6 million was available for use. These lines of credit were secured by the pledge of restricted cash and buildings with a carrying value of $9.6 million and $3.0 million, respectively.

We believe our working capital is sufficient to meet our present requirements. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. In the long-term, we intend to rely primarily on cash flow from operations and additional borrowings from banks to meet our anticipated cash needs. If our anticipated cash flow and borrowing capacity is insufficient to meet our requirements, we may also seek to sell additional equity, debt or equity-linked securities. We cannot assure you that any financing will be available in the amounts we need or on terms acceptable to us, if at all.

In line with the industry practice, we typically have a long receivable collection cycle. As a result, our cash provided by our operations in any given year may not be sufficient to fully meet our operating cash requirements in that year. We will use available financing means, including bank loans, to provide sufficient cash inflows to balance timing differences in our cash flows.

We estimate our liquidity needs for investing and financing activities for fiscal 2021 will be approximately $38.9 million, which will be primarily related to the repayment of bank borrowings and capital expenditures. Our future working capital requirements will depend on many factors, including, among others, the rate of our revenue growth, the timing and extent of expansion of our sales and marketing activities, the timing of introductions of new products and/or enhancements to existing products, and the timing and extent of expansion of our manufacturing capacity.

Our long-term liquidity needs will relate primarily to working capital to pay our suppliers, and third-party manufacturers, as well as any increases in manufacturing capacity or acquisitions of third party businesses that we may seek in the future. We expect to meet these requirements primarily through our current cash holdings, revolving bank borrowings, as well as our cash flow from operations. For fiscal year 2021, we expect our capital expenditures will be approximately $15.7 million, mainly related to purchase of the property, plant and equipment for manufacturing and operations.

Cash Flow and Working Capital

As of June 30, 2020, we had total assets of $1,360.8 million, of which cash and cash equivalents amounted to $288.8 million, time deposits with original maturities over three months amounted to $324.9 million, accounts receivable amounted to $242.4 million and inventories amounted to $48.2 million. As of June 30, 2020, our working capital was $847.2 million, equity of $984.5 million and our current ratio was 3.6.

See Item 8, Financial Information, A. Consolidated Statements and Other Financial Information, Dividend Policy, for information on the ability of certain of our subsidiaries in China to make dividends to their respective parent companies.

The following table shows our cash flows with respect to operating activities, investing activities and financing activities for the fiscal years ended June 30, 2018, 2019 and 2020:

(In USD thousands)

Cash Flow Item	**Fiscal Years Ended June 30**		
	2018	**2019**	**2020**
Net cash provided by operating activities	$ 105,719	$ 100,521	$ 175,124
Net cash used in investing activities	$ (49,748)	$ (9,888)	$ (187,580)
Net cash used in financing activities	$ (12,197)	$ (10,155)	$ (18,213)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	$ 5,839	$ (9,400)	$ (8,621)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 49,613	$ 71,078	$ (39,290)
Cash, cash equivalents and restricted cash, beginning of year	$ 237,696	$ 287,309	$ 358,387
Cash, cash equivalents and restricted cash, end of year	$ 287,309	$ 358,387	$ 319,097

Operating Activities

For the fiscal year ended June 30, 2020, net cash provided by operating activities was $175.1 million, compared to $100.5 million for prior fiscal year 2019. The net cash inflow of operating activities in fiscal year 2020 primarily consisted of net income of $79.3 million, $43.6 million generated from non-operating items and non-cash items, and $52.2 million generated from working capital. Changes in working capital was attributable to an increase in account receivables of $30.9 million, an increase in accounts payables of $15.0 million, an increase of due from related parties of $12.0 million, a decrease in inventories of $6.5 million, and a decrease in advances to suppliers of $4.7 million.

For the fiscal year ended June 30, 2019, net cash provided by operating activities was $100.5 million, compared to $105.7 million for prior fiscal year 2018. The net cash inflow of operating activities in fiscal year 2019 primarily consisted of net income of $125.5 million, and $14.5 million generated from non-operating items and non-cash items, which was partially offset by $39.5 million used as working capital. Changes in working capital was attributable to a decrease in account receivables of $33.8 million, a decrease in accounts payables of $14.0 million, a decrease of other tax payables of $11.7 million, an increase in deferred revenue of $10.8 million, and an increase in accruals and other payable of $11.5 million. The net cash inflow of operating activities in fiscal year 2018 primarily consisted of net income of $107.4 million and $16.7 million generated from non-operating items and non-cash items, which was partially offset by $18.4 million used as working capital. Changes in working capital are attributable to a decrease in account receivable of $28.3 million, a decrease in inventories of $11.4 million, a decrease of other receivables of $10.0 million and an increase in deferred revenue of $28.2 million.

Investing Activities

For the fiscal year ended June 30, 2020, net cash used in investing activities was $187.6 million, compared to $9.9 million for prior fiscal year 2019. The net cash used in investing activities in fiscal year 2020 mainly consisted of a cash outflow of $8.1 million for capital expenditures, a cash outflow of $426.8 million transferred from current accounts to time deposits placed with banks, partially offset by a cash inflow of $242.2 million from maturity of time deposits, and a cash inflow of $4.5 million from proceeds from disposal of investment in an equity investee.

For the fiscal year ended June 30, 2019, net cash used in investing activities was $9.9 million, compared to $49.7 million for prior fiscal year 2018. The net cash used in investing activities in fiscal year 2019 mainly consisted of a cash outflow of $10.6 million for capital expenditures, a cash outflow of $256.3 million transferred from current accounts to time deposits placed with banks, partially offset by a cash inflow of $245.9 million from maturity of time deposits, and a cash inflow of $8.9 million from dividends received in excess of cumulative equity in earnings from an equity investee. The net cash used in investing activities in fiscal year 2018 mainly consisted of a cash outflow of $2.3 million for capital expenditures, a cash outflow of $5.9 million investment of equity investees, a cash outflow of $179.2 million transferred from current accounts to time deposits placed with banks, partially offset by a cash inflow of $137.8 million from maturity of time deposits.

Financing Activities

For the fiscal year ended June 30, 2020, net cash used in financing activities was $18.2 million, as compared to $10.2 million for the prior year. The net cash used in financing activities in fiscal year 2020 mainly consisted of a repayment of short-term bank loans of $4.2 million, a payment of dividends of $12.7 million, repayments of convertible bond of $20.8 million, partially offset by proceeds from long-term bank loans of $15.4 million.

For the fiscal year ended June 30, 2019, net cash used in financing activities was $10.2 million, as compared to $12.2 million for the prior year. The net cash used in financing activities in fiscal year 2019 mainly consisted of a repayment of short-term bank loans of $6.9 million, a payment of dividends of $10.9 million, partially offset by proceeds from short-term bank loans of $5.9 million. The net cash used in financing activities in fiscal year 2018 mainly consisted of a repayment of short-term bank loans of $11.3 million, a payment of dividends of $7.2 million, partially offset by proceeds from short-term bank loans of $5.9 million.

C. Research and Development, Patents and Licenses

Research and Development Efforts

As a high-technology company, our business and long-term development rely highly on our research and development capabilities. Our research and development process can be classified into the following seven phases:

- Study phase
- Requirement phase
- Designing phase
- Implementation phase
- Testing phase
- Inspection phase
- Maintaining phase

We use standard product development life cycle models, including the waterfall model, increment model, iterative model and prototype. As a technology leader we continually develop and patent new automation technologies. We also continually review and evaluate technological changes affecting the automation and integrated system industries and invest substantially in application-based research and development. We currently employ 713 staff in the research and development department or engaged in research and development work.

Our core technologies achieved from our research and development efforts include:

We are committed to incorporating the latest advances in electronics and information system technology into our products and, whenever possible, developing state-of-the-art proprietary products based on our extensive internal expertise and research efforts. We currently spend approximately 6-9% of our annual revenues on research and development. Our recent major research and development focuses include:

- Transportation Automation;
- Manufacturing Automation; and
- Process Automation.

D. Trend Information

Other than as disclosed in the foregoing disclosures and elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the fiscal year 2020 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

We do not believe that we have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to an investment in our securities.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, including long-term loans and operating leases and capital and operational commitments as of June 30, 2020.

(In USD thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term Loans					
-Principal	16,265	310	15,576	255	124
-Interest	1,049	502	462	19	66
Operating Lease Obligations(1)	6,618	3,038	3,195	385	—
Purchase Obligations(2)	233,484	187,749	28,584	11,434	5,717
Capital Obligations(3)	14,359	14,359	—	—	—
Standby Letters of Credit(4)	1,850	1,850	—	—	—
Performance Guarantees(5)	42,117	29,141	10,648	2,328	—
Total	315,742	236,949	58,465	14,421	5,907

(1) Operating lease obligations

It represents the future minimum payments under non-cancelable operating leases.

(2) Purchase obligations

As of June 30, 2020, the Company had $233.5 million in purchase obligations for the coming fiscal years, for purchases of inventories and subcontracts. The inventories will be mainly used for fulfilling existing contracts or new contracts resulted from the expansion of our operations.

(3) Capital obligations

As of June 30, 2020, the Company had $14.4 million in capital obligations for the coming fiscal year, mainly for the construction of facilities.

(4) Standby letters of credit

We have issued letters of credit to our suppliers to serve as assurance of payment, and issued to our subsidiaries as comprehensive credit. When a letter of credit is issued, a proportion of the total amount covered by the letter of credit may be required to be deposited in the bank, and is not available until the payment has been settled or the letter of credit has expired. As of June 30, 2020, we had $1.9 million in standby letters of credit obligations.

(5) Performance guarantees

We have provided performance guarantees to our customers to serve as assurance of performance for the contractual obligations. When a performance guarantee is issued, a proportion of the total guarantee amount may be required to be deposited in the bank, and is not available until the guarantee is expired. As of June 30, 2020, we had $42.1 million of outstanding performance guarantees obligation, with $9.8 million of restricted cash deposited in banks for performance guarantees.

Other than the contractual obligations and commercial commitments set forth above, we did not have any other long-term debt obligations, operating lease obligations, capital commitments, purchase obligations or other long-term liabilities as of June 30, 2020.

G. Safe Harbor

See "Forward-Looking Information" on page 8.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth certain information regarding our current directors and senior management.

Name	Age	Position
Chit Nim (Colin) SUNG	54	Chief Executive Officer and Director
Steven Wang	52	Chief Financial Officer
Lei FANG	44	Co-Chief Operating Officer
Yue XU	59	Co-Chief Operating Officer
Chunming HE	52	Chief Technology Officer
Hongyuan SHI	51	Chief Human Resource Officer
Li QIAO	63	Chairwoman
Jianyun CHAI	59	Director
Kok Peng TEH	72	Director
Khiaw Ngoh TAN	63	Director

Mr. Chit Nim (Colin) SUNG, has been a director of the Board since February 2008 and has been serving as Chief Executive Officer of the Company since July 2020. He was the Chairman of the Audit Committee of Board of the Company from February 2008 to July 2020. Mr. Sung served as the Chief Financial Officer for eHi Car Services Limited from April 2013 to August 2019, and member of its Board of Directors from September 2019 to July 2020. Mr. Sung also served as adviser of NeWorld Education Group, Inc. since August 2012 and served as Chief Financial Officer of NeWorld Education Group since August 2011. Prior to joining NeWorld, he was the CFO of Lighting the Box from March 2011. Mr. Sung served as the deputy Chief Executive Officer and the Chief Financial Officer of Linktone Ltd., from 2009 to 2011. From 2008 to 2009, he served as the Chief Financial Officer and President of China Cablecom Holdings, Ltd. From 2005 to 2008, he was the Chief Financial Officer of Linktone Ltd., where he also served as the acting Chief Executive Officer in 2006 and as its director of board from 2007 to 2008. From 2004 to 2005, Mr. Sung was the Corporate Controller of UTI, United States, Inc., a subsidiary of International Freight Forwarder (NASDAQ: UTIW), and from 2001 to 2004, was a Vice President of finance and Corporate Controller of USF Worldwide, Inc., a subsidiary of US Freightways. From 1997 to 2001, Mr. Sung was Vice President and Corporate Controller for US Operation of Panalpina Welttransport Holding, (PWTN.SW). Mr. Sung received his bachelor's degree in accounting from William Paterson University in 1992 and his MBA degree from American InterContinental University in 2004. Mr. Sung is a Certified Public Accountant and Chartered Global Management Accountant.

Mr. Steven WANG, joined the Company in June 2018. He has over 16 years of experience in financial controlling, accounting and budgeting, tax planning and corporate investment in various investment institutions and multinational corporations, with deep familiarity with rules and regulations of US and Chinese capital markets. Prior to joining Hollysys, Mr. Wang served as the Chief Financial Officer and Vice President of Xinhua Lian Investment Co., Ltd., a subsidiary of a top 500 company in China. From 2005 to 2012, Mr. Wang worked at various managerial positions at Globe Specialty Metals Inc. and Zhonglian Zhongke Co., Ltd., a Hong Kong Stock Exchange listed company. Mr. Wang received an MBA degree in Finance from the Wharton School, the University of Pennsylvania.

Mr. Lei FANG is vice president of Hollysys Group in charge of global industrial automation business. From 1998 to 2011, he was involved in software development and has participated in the development of DCS control system for various industries including nuclear, coal-fire, thermal power and chemical, etc. From 2011 to 2013, he was in charge of the establishment and team building of Xi'an Hollysys, the Company's research center in Xi'an. Since 2013, he has been in charge of the management of Hangzhou Hollysys, which operates the industrial automation business.Mr. Fang is a senior engineer. He received his Master degree in computer from 6th Research Institute of China Electronics Corporation and Bachelor degree in automatic control from Xidian University.

Mr. Yue XU is vice president of Hollysys Group in charge of global railway transportation business. Mr. Xu joined Hollysys in 2000. From 2000 to 2009, he was serving as the president of Beijing Hollysys in charge of R&D management and business operation of railway transportation business, and led numerous key projects for China State Railway Group Co., Ltd. Since 2009, Mr. Xu has been serving as the vice president and president of railway transportation business of Hollysys Group.Mr. Xu is a senior engineer at researcher level. He received 2nd class of National Science Progress Award in 2017. Mr. Xu received his Master degree in computer application from Beijing Jiaotong University.

Mr. Chunming HE is vice president of Hollysys Group and head of the research institute of Hollysys Group, in charge of research and development, product and quality. Dr. He joined Hollysys in 2000 and has been the leading figure in the research and development of the Company. From 2000 to 2011, Dr. He helped to establish the railway signaling R&D team for the Company, and led the effort in the R&D of comprehensive railway signaling system covering interlock system, on-ground and on-board system, track circuit, etc. From 2011 to 2012, Dr. He led the effort in safety reinforcement of the existing railway signaling system. Since 2016, Dr. He has been leading the effort in R&D of industrial digital transformation covering the area of industry 4.0 and cyber physical systems, etc., as well as prospective technology research, development of technology platform and implementation of IPD (Integrated Product Development) system. Dr. He is a professorate senior engineer. He is also the expert for the talent pool of Ministry of Science and Technology of PRC and Beijing Municipal Science & Technology Commission, and a fellow of IRSE (Institution of Railway Signal Engineers). He received 2nd class of National Science Progress Award in 2017. Dr. He received his Doctoral Degree from school of mechanical engineering, Beijing Institute of Technology.

Mr. Hongyuan SHI is vice president of Hollysys Group in charge of human resource and information technology. Mr. Shi joined Hollysys in 1997. From 1997 to 2008, he was working in the research and development department and served as associate head of technology center and head of product center. From 2009 to 2015, he was working in the business departments and served as head of subway business and head of industrial automation business. He has been serving as the vice president of Hollysys Group since 2016. Mr. Shi received his Master and Bachelor degree in precision instrument from Tsinghua University.

Ms. Li QIAO, has been a director of the Board since January 2017 and has been serving as the Chairwoman of the Board since July 2020. She is the Chairman of Agriculture Resources Pte Ltd. and the Director of CSIC International Pte Ltd. From 2007 to 2010, she served as Chairwoman of the Company. From 1999 to 2008, she also served as Director of Beijing Hollysys Co., Ltd.. From 1999 to 2000, she served as Vice President of Beijing Venture Capital Co., Ltd. From 1996 to 1998, she was Division Chief of the Zhongguancun Science Park (“Z-Park”) Administrative Committee. From 1989 to 1996, she was the Minister of Beijing New Technology Industry Development Experimental Zone. Ms. Qiao also has extensive experience in equity investment. She participated in establishing the first Beijing venture capital company, invested and successfully helped a number of companies listed in domestic and abroad. The investment projects that Ms. Qiao involved with include biological medicine, high-end equipment manufacturing, new energy, chemical and energy, agriculture, education, integrated circuits, aerospace, fast moving consumer goods, electronic information and other industries. She holds an IEMBA from Hong Kong University of Science and Technology.

Dr. Jianyun CHAI, has been serving as a member of the Board of Directors of the Company since June 2008. Dr. Chai is currently a professor and the head of the Institute of Power Electronic and Electrical Machine System at Tsinghua University in China. Before he joined Tsinghua University as an Associate Professor in 1999, Dr. Chai spent eight years working in the motor and information industries in Japan. Dr. Chai is also a member of various societies and organizations, including the China Renewable Energy Society, the Chinese Society for Electrical Engineering, and the Chinese Wind Energy Association. Dr. Chai received a Bachelor’s degree and a PhD in Electrical Engineering from Tsinghua University in 1984 and 1989.

Dr. Kok Peng TEH, has been serving as a member of the Board of Directors of the Company since September 2020. He is Chairman of Azalea Asset Management and Lu International and is a board member of Sembcorp Industries and Fullerton Health Corporation. He chairs the East Asia Institute of the National University of Singapore. He is a Senior Adviser to China International Capital Corporation and Jasper Ridge Partners, and is a member of the International Advisory Board of CMC Corporation. In 2019, he joined CDPQ's Global Economic and Financial Advisory Council. Dr. Teh was President of GIC Special Investments from April 1999 to June 2011, and remained an Adviser for two years after that. Prior to that, he was concurrently a deputy managing director of GlC and the Monetary Authority of Singapore. He began his career with the World Bank in 1975 under its Young Professionals Program. Dr. Teh is a member of the Trilateral Commission. He obtained a first class honours economics degree at La Trobe University in Australia, a D Phil. at Nuffield College, Oxford University, and attended the AMP course at Harvard Business School in 1989.

Ms. Khiaw Ngoh TAN has been serving as a member of the Board of Directors of the Company since September 2020. She has over 37 years of experience in the audit profession, including 23 years as an audit partner. Ms. Tan has been an independent director and member of audit committee of United Industrial Corporation Limited, a public company listed on Singapore Stock Exchange since February 2020. From April 1994 to June 2017 when she retired, she was an audit partner at PricewaterhouseCoopers, Singapore. From September 2008 to August 2011, she was seconded to the Shanghai office of PricewaterhouseCoopers as an Assurance partner. As an audit partner, Ms. Tan was involved in reporting accountant's role for companies seeking listing on the Singapore Stock Exchange and while working in Shanghai, she was also involved in listing of companies on Nasdaq and NYSE and was also the audit partner responsible for the audits of these companies. Ms. Tan is a fellow chartered accountant of Singapore. She received her Bachelor of Commerce (Accountancy) from Nanyang University, Singapore.

There is no arrangement or understanding with any major shareholders, customers, suppliers or others, pursuant to which any person named above was selected as a director or member of senior management.

No family relationship exists between any of the persons named above.

B. Compensation

The aggregate cash compensation paid to our executive officers as a group was $966,549 for the fiscal year ended June 30, 2020. For the fiscal year ended June 30, 2020, the aggregate amount of cash compensation paid to our directors who served between 7/1/2019 and 6/30/2020 as a group was $168,000. We pay each of our non-employee directors who are not Company employees a monthly fee as compensation for the services to be provided by him/her as a non-employee director. We also reimburse our non-employee directors for out-of-pocket expenses incurred in attending meetings. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our directors and executive officers. Our PRC subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

2015 Equity Plan

On May 14, 2015, the Board of Directors approved 2015 Equity Incentive Plan (the "2015 Equity Plan"). The 2015 Equity Plan authorized the issuance of five million shares. It will terminate ten years following the date that it was adopted by the Board of Directors. The purposes of 2015 Equity Plan are used to promote the long-term growth and profitability of the Company and its affiliates by stimulating the efforts of employees, directors and consultants of the Company and its affiliates who are selected to be participants, aligning the long-term interests of participants with those of shareholders, heightening the desire of participants to continue in working toward and contributing to the success of the Company, attracting and retaining the best available personnel for positions of substantial responsibility, and generally providing additional incentive for them to promote the success of the Company's business through the grant of awards of or pertaining to shares of the Company's ordinary shares. A copy of 2015 Equity Plan was filed with the Registration Statement on Form S-8 (No. 333-208615) and is incorporated herein by reference.

The following paragraphs summarize the principal terms of our 2015 Equity Plan.

Administration. The 2015 Equity Plan is currently being administered by our board of directors. The board has the authority to determine the specific terms and conditions of all awards granted under the 2015 Plan, including, without limitation, the number of shares subject to each award, the price to be paid for the shares and the applicable vesting criteria. The board also has discretion to make all other determinations necessary or advisable for the administration of the 2015 Equity Plan.

Eligibility. Non-statutory share options, restricted shares, restricted share units, share appreciation rights, performance units and performance shares may be granted to employees, directors or consultants either alone or in combination with any other awards. Incentive stock options may be granted only to our employees.

Shares Available for Issuance Under the 2015 Equity Plan. The maximum aggregate number of shares that may be issued under the 2015 Equity Plan is 5,000,000 ordinary shares. The number and class of shares available under the 2015 Equity Plan are subject to adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, share splits, share dividends, or other similar events which change the number or kind of shares outstanding.

Transferability. Unless otherwise provided in the 2015 Equity Plan or otherwise determined by the board, an award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the participant, only by the participant.

Termination of, or Amendments to, the 2015 Equity Plan. The board may at any time amend, alter, suspend or terminate the 2015 Equity Plan, provided that the Company will obtain shareholder approval of any 2015 Equity Plan amendment to the extent necessary and desirable to comply with applicable laws.

The 2015 Equity Plan will terminate ten years following the date it was adopted by the board, unless sooner terminated by the board.

In the fiscal year ended June 30, 2015, we granted options to purchase 1,740,000 ordinary shares under the 2015 Equity Plan to certain key employees. These options have vesting periods of up to five years depending on the person's position and all of the grants have specific performance milestones. Additionally, if in certain instances the milestones are exceeded by specified targets, then applicable vesting schedules will be accelerated. The exercise periods for the options are five years from the date of grant. As of June 30, 2020, no outstanding options were exercised and as a result, all options granted under the 2015 Equity Plan became expired.

Employment Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate the employment of any officers for cause for certain acts of such officer, such as continued failure to substantially perform duties, dishonest or fraudulent conduct, deliberate attempt to do an injury to our company or any of our subsidiaries, conduct that materially discredits our company or any of our subsidiaries or is materially detrimental to our reputation, conviction of a felony and breach of any obligation of non-disclosure and non-competition. We may also terminate his or her employment without cause, at any time, upon a 90-day's written notice, or upon his or her or death or disability. Our officers may terminate their employment, at any time, with a written notice to our company for good reason, including material diminution in their authority, duties, responsibilities or cash compensation as detailed in their employment agreements, or in event of any action or inaction that constitutes a material breach by our company under the employment agreement, in the manner set forth in their employment agreements, which has not been cured by the Company within ninety (90) calendar days after notice of such occurrence is given by Executive to the Company. If an executive officer's employment terminates for any reason at any time, including but not limited to either party's failure to renew the employment agreement, the executive officer's voluntary election to terminate his or her employment with or without good reason, termination by the Company with or without cause, or upon the executive officer's death or disability, the executive officer (or the executive officer's estate in the case of death) will receive payment for all salary and unpaid vacation accrued as of the date of termination of employment, and shall be entitled to receive all vested equity awards as of the date of the executive officer's termination of employment subject to the executive officer's written agreement with the Company with respect to such equity awards, and shall be entitled to all accrued benefits and to any additional benefits pursuant to the company's plans or policies in effect at the time of termination or as required by law, less all required withholdings. In addition, each of our executive officer has agreed to be bound by a three-year non-competition covenant after the termination of the employment within China.

C. Board Practices

Terms of Directors and Executive Officers

Our Board consisted of five directors for fiscal year 2020. Our directors are not subject to a term of office limitation, and hold office until the next annual meeting of members or until such director's earlier resignation, removal from office, death or incapacity. Any vacancy on our board resulting from death, resignation, removal or other cause, and any newly created directorship resulting from any increase in the authorized number of directors between meetings of members, may be filled either by the affirmative vote of a majority of all the directors then in office (even if less than a quorum) or by a resolution of members. In addition, the service agreement between us and the directors do not provide benefits upon termination of their services. In connection with the adoption of Rights Plan in August 2010, we amended our Memorandum and Articles of Association to provide that directors may only be removed by shareholders for cause.

Our executive officers are appointed by our board. The executive officers shall hold office until their successors are duly elected and qualified, but any officer elected or appointed by the directors may be removed at any time, with or without cause, by resolution of directors. Any vacancy occurring in any office may be filled by resolutions of directors.

Independence of Directors

We have elected to follow the rules of NASDAQ to determine whether a director is independent. Our board will also consult with counsel to ensure that our board's determinations are consistent with those rules and all relevant securities and other laws and regulations regarding the independence of directors. Rule 5605(a)(2) of Listing Rules of The NASDAQ Stock Market, Inc., or the NASDAQ Listing Rules, defines an "independent director" generally as a person, other than an officer of the Company, who does not have a relationship with the Company that would interfere with the director's exercise of independent judgment. Consistent with these considerations, our board has determined that, Dr. Jianyun CHAI, Dr. Kok Peng TEH and Ms. Khiaw Ngoh TAN are our independent directors.

Board Committees

Our board has established an audit committee, a compensation committee and a corporate governance and nominating committee. Each committee's members and functions are described below.

Audit Committee

Our audit committee consists of Ms. Khiaw Ngoh TAN, Dr. Jianyun CHAI and Dr. Kok Peng TEH, with Ms. TAN serving as the Chair. Our board has determined that each member of the audit committee satisfies the "independence" requirements of Rule 10A-3 under the Exchange Act and Section 5605 of the Nasdaq Listing Rules.

Our board has determined that each of the committee members has an understanding of generally accepted accounting principles and financial statements, the ability to assess the general application of such principles in connection with our financial statements, including estimates, accruals and reserves, experience in analyzing or evaluating financial statements of similar breadth and complexity as our financial statements, an understanding of internal controls and procedures for financial reporting, and an understanding of audit committee functions.

Our board believes that Ms. Tan qualifies as an "audit committee financial expert" within the meaning of all applicable rules based on her education background and working experiences.

We adopted an audit committee charter under which the committee is responsible for reviewing the scope, planning and staffing of the audit and preparation of the financial statements. This includes consultation with management, the auditors and other consultants and professionals involved in the preparation of the financial statements and reports. The committee is responsible for performing oversight of the relationship with our independent auditors. The committee also has a general compliance oversight role in assuring that our directors, officers and management comply with our code of ethics, reviewing and approving of related party transactions, dealing with complaints regarding accounting, internal controls and auditing matters, and complying with accounting and legal requirements applicable to us.

Pursuant to the terms of its charter, the audit committee's responsibilities include, among other things:

- selecting our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;
- reviewing with our independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related-party transactions;
- discussing the annual audited financial statements with management and our independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of significant internal control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately and periodically with management and our internal and independent auditors; and
- reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee consists of Dr. Kok Peng TEH, Ms. Khiaw Ngoh TAN and Dr. Jianyun CHAI, with Dr. TEH serving as its Chair. Our board has determined that each member of the compensation committee satisfies the "independence" requirements of Rule 10A-3 under the Exchange Act and Section 5605 of the Nasdaq Listing Rules.

Our compensation committee assists the board in reviewing and approving the compensation structure of our executive officers, including all forms of compensation to be provided to our executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The Compensation Committee is responsible for, among other things:

- approving and overseeing the compensation package for our chief executive officer and the other senior executive officers;
- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives, and setting the compensation level of our chief executive officer based on this evaluation;
- reviewing and making recommendations in respect of director compensation;
- engaging and overseeing compensation consultants;
- reviewing periodically and making recommendations to the Board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans and the administration of those plans; and
- reviewing and making recommendations to the Board regarding succession plans for the chief executive officer and other senior officers.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of Dr. Jianyun CHAI, Dr. Kok Peng TEH and Ms. Khiaw Ngoh TAN, with Dr. CHAI acting as the Chair. Our board has determined that each member of the corporate governance and nominating committee satisfies the "independence" requirements of Rule 10A-3 under the Exchange Act and Section 5605 of the Nasdaq Marketplace Rules. The corporate governance and nominating committee assists the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- identifying and recommending to the Board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board in light of the characteristics of independence, age, skills, experience and availability of service to us;
- identifying and recommending to the board the directors to serve as members of the board's committees; and
- monitoring compliance with our Corporate Governance Guidelines

D. Employees

We had 3,598, 3,301 and 3,292 employees as of June 30, 2020, 2019, and 2018, respectively. As of June 30, 2020, there were 2,945 employees located in China and 653 employees outside China. The following table sets forth our employees as of June 30, 2020 based on their functional areas within the Company:

Category	**China**	**Overseas**	**Total**
Sales & Marketing	492	31	523
Research and development	713	—	713
Engineering	1,010	482	1,492
Production	368	—	368
Management	362	140	502
Total	2,945	653	3,598

We believe that our relationship with our employees is good. The remuneration payable to employees includes basic salaries and bonuses. We have not experienced any significant problems or disruption to our operations due to labor disputes, nor have we experienced any difficulties in recruitment and retention of experienced staff. As required by applicable laws of China, Singapore, Malaysia, Hong Kong, Dubai, Saudi Arabia, India, Qatar, Macau and Indonesian we have entered into employment contracts with all of our officers, managers and employees.

Our employees in China participate in a state pension scheme organized by Chinese municipal and provincial governments. We also contribute to social insurance for our employees each month, which includes pension, medical insurance, maternity insurance, unemployment insurance, occupational injuries insurance and housing providence fund in accordance with PRC regulations.

Our employees in Singapore, who are Singapore citizens and Singapore permanent residents, participate in monthly statutory contribution requirements into the Central Provident Fund organised by the Central Provident Fund Board, a statutory board under the Ministry of Manpower. It is a comprehensive social security system that enables the qualified to set aside funds for retirement, healthcare, home ownership, family protection and asset enhancement.

Our employees in Malaysia participate in contributing into an Employee's Provident Fund, a monthly mandatory saving and retirement plan organized by the Employee's Provident Fund Board, a Malaysian government agency under the Ministry of Finance. We also contribute to social insurance for our employees each month, which include medical and cash benefits, provision of artificial aids and rehabilitation to employees in order to provide financial guarantees and protection to the family in accordance to Malaysia regulations.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares (i) by each of our officers and directors, as of September 21, 2020; (ii) by each person who is known by us to beneficially own more than 5% of our ordinary shares. The table does not include any preferred shares or ordinary shares that may be issued under the Amended and Restated Rights Plan of the Company. The address of each of the persons set forth below is in care of Hollysys Automation Technologies Ltd., No. 2 Disheng Middle Road, Beijing Economic-Technological Development Area, Beijing, China 100176.

Name & Address of Beneficial Owner	Office, if Any	Title of Class	Amount & Nature of Beneficial Ownership (1)	Percent of Class (2)
Officers and Directors				
Chit Nim (Colin) SUNG	Chief Executive Officer and Director	Ordinary Shares	90,000(3)	*
Steven WANG	Chief Financial Officer	Ordinary Shares	*	*
Lei FANG	Co-Chief Operating Officer	Ordinary Shares	681,471(4)	1.13%
Yue XU	Co-Chief Operating Officer	Ordinary Shares	*	*
Chunming HE	Chief Technology Officer	Ordinary Shares	*	*
Hongyuan SHI	Chief Human Resource Officer	Ordinary Shares	*	*
Li QIAO	Chairwoman	Ordinary Shares	558,088(5)	*
Jianyun CHAI	Director	Ordinary Shares	60,000(6)	*
Kok Peng TEH	Director	Ordinary Shares	*	*
Khiaw Ngoh TAN	Director	Ordinary Shares	*	*
5% Securities Holder				
Davis Selected Advisers, L.P.		Ordinary Shares	6,602,765(7)	10.91%
Eastspring Investments (Singapore) Limited		Ordinary Shares	5,953,707(8)	9.83%
Ace Lead Profits Limited.		Ordinary Shares	4,144,223(9)	6.85%

* Less than 1%.

(1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as otherwise indicated, each of the beneficial owners listed above has direct ownership of and sole voting power and investment power with respect to our ordinary shares.

(2) As of September 21, 2020, a total of 60,537,099 ordinary shares are outstanding pursuant to SEC Rule 13d-3(d)(1). For each beneficial owner above, any options exercisable within 60 days have been included in the denominator.

(3) Including 90,000 restricted shares granted and issued, among which 18,750 restricted shares are not yet vested.

(4) The securities reported as held indirectly by Mr. Lei FANG through Golden Result Enterprises Limited. The foregoing entity is a BVI entity that is wholly-owned and controlled by Mr. Lei Fang therefore he may be deemed to be the beneficial owner of the ordinary shares held by it.

(5) Including 528,088 ordinary shares held directly by Acclaimed Insight Investments Ltd, Glory Pearl International Ltd and Time Keep Investment Ltd., each owned and controlled by Ms. Qiao, who is the sole director of each entity as well as 30,000 restricted shares granted and issued, among which 12,500 restricted shares are not yet vested.

(6) Including 60,000 restricted shares granted and issued, among which 13,750 restricted shares are not yet vested.

(7) Based on information provided by Davis Selected Advisers, L.P. in Amendment No. 3 to Schedule 13G filed with the SEC on February 13, 2020

(8) Based on information provided by Eastspring Investments (Singapore) Limited in Amendment No. 4 to Schedule 13G filed with the SEC on February 18, 2020.

(9) Based on information provided by Ace Lead Profits Limited in Schedule 13D filed on September 26, 2016. See “Risk Factors—Risks Related to Our Business— Our business could be negatively affected by the dispute in connection with the ownership of Ace Lead Profits Limited (“Ace Lead”).”

None of our major shareholders have different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of the Company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to Item 6.E "Directors, Senior Management and Employees — Share Ownership."

B. Related Party Transactions

Due from related parties

We sell automation control systems to China Techenergy Co., Ltd. ("China Techenergy"), which are used for non-safety operations control in the nuclear power industry. China Techenergy is 40% owned by Beijing Hollysys. China Techenergy incorporates our non-safety automation control systems with their proprietary safety automated control systems to provide an overall automation and control system for nuclear power stations in China. We are not a party to the integrated sales contracts executed between China Techenergy and its customers. Our pro rata shares of the intercompany profits and losses are eliminated until realized through a sale to outside parties, as if China Techenergy were a consolidated subsidiary. As of June 30, 2020, the balance due from China Techenergy was $14.3 million, which balance has not been paid off as of the date of this report.

We sell products to Ningbo Hollysys Intelligent Technologies Co Ltd. ("Ningbo Hollysys"). Ningbo Hollysys incorporates our products with their automated systems to provide an integrated automation and control system to their customer. In addition, we entered into a loan agreement with Ningbo Hollysys amounting to $7.1 million with an annual interest rate of 4.35%. Ningbo Hollysys is 40% directly owned by Hollysys Group Co., Ltd. As of June 30, 2020, the balance due from Ningbo Hollysys was $6.1 million, which balance has not been paid off as of the date of this report.

We also have transactions with other equity investees including Beijing Hollycon Medicine & Technology. Co., Ltd. ("Hollycon"), Beijing Hollysys Machine Automation Co., Ltd. ("Hollysys Machine") and Hunan LingXiang Maglev Technology Co., Ltd. ("Hunan LingXing"). For more details, please refer to the related parties footnote disclosure in our audited financial statements included in this Annual Report.

Due to related parties

From time to time, we purchase products from China Techenergy. As of June 30, 2020, the balance due from us to China Techenergy was $3.0 million, which balance has not been paid off as of the date of this report.

We also purchase products from Ningbo Hollysys used to provide an integrated automation and control system to our customer. As of June 30, 2020, the balance due from us to Ningbo Hollysys was $0.6 million, which balance has not been paid off as of the date of this report.

Amounts due from and due to the related parties relating to the above transactions are unsecured, non-interest bearing and repayable on demand excluding the loan to related parties.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this Annual Report. See Item 18 "Financial Statements."

Legal Proceedings

We are currently not a party to any material legal or administrative proceedings, and we are not aware of threatened material legal or administrative proceedings against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

Dividend Policy

On August 11, 2016, the Board of Directors approved a regular cash dividend policy pursuant to which future cash dividends are expected to be paid to holders of the Company's ordinary shares on an annual basis out of funds legally available for such purpose. However, the declaration and payment of future dividends will be at the discretion of the Board, and will depend upon many factors, including but not limited to the Company's financial conditions, available cash resources, earnings, and capital requirements of its businesses, legal requirements, regulatory constraints, industry practice, and other factors that the Board deems relevant. Accordingly, there can be no assurance that dividends in the future will be equal or similar in amount to the amounts already declared and paid in the past or that the Board of Directors will not decide to suspend or discontinue, altogether, the payment of cash dividends in the future.

As a BVI company, we may only declare and pay dividends if our directors are satisfied, on reasonable grounds, that immediately after the distribution (i) the value of our assets will exceed our liabilities and (ii) we will be able to pay our debts as they fall due. On November 11, 2016, we paid 2016 annual dividend of $0.2 per ordinary share. On November 6, 2017, we paid 2017 annual dividend of $0.12 per ordinary share. On November 12, 2018, Company paid 2018 annual dividend of $0.18 per ordinary share. On November 12, 2019, Company paid 2019 annual dividend of $0.21 per ordinary share.

Notwithstanding the understanding that earnings will be accumulated, our ability to pay dividends depends substantially on the receipt of dividends to us by our subsidiaries.

For the PRC subsidiaries, each of them may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association and the accounting standards and regulations in China. Pursuant to applicable PRC laws and regulations, 10% of after-tax profits of each of our consolidated PRC entities are required to be set aside in a statutory surplus reserve fund annually until the reserve balance reaches 50% of such PRC entity's registered capital. Allocations from these statutory surplus reserves may only be used for specific purposes and are not distributable to us in the form of loans, advances, or cash dividends. See "Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in the People's Republic of China — We rely to a significant extent on dividends, loans and other distributions on equity paid by our principal operating subsidiaries in China."

Under the New EIT Law and its implementation rules issued by the PRC State Council, both of which became effective on January 1, 2008, dividends from our PRC subsidiaries to us may be subject to a withholding tax at the rate of 10% if the dividend is derived from profits generated after January 1, 2008. If we are deemed to be a PRC resident enterprise, the withholding tax may be exempted, but in such a case we will be subject to a 25% tax on our global income, and our non-PRC investors may be subject to PRC income tax withholding. For a more detailed discussion of the New EIT Law, see Item 10 - Additional Information, Subpart E, Taxation in China of this Form 20-F.

For the Singapore and Malaysia subsidiaries, each of them may pay dividends only out of its profits based on the articles of association and the Companies Act in Singapore and Malaysia. There is no limit to the amount of dividend payable as long as there are sufficient profits. There is no withholding tax imposed on a Singapore and Malaysia company paying dividends to a company located outside of Singapore and Malaysia upon remittance.

For the Qatar subsidiary, it may pay dividends only out of its profits based on the articles of association and the Companies Act in Qatar. Pursuant to applicable Qatari laws and regulations, 10% of after-tax profits are required to be set aside in a statutory surplus reserve fund annually until the reserve balance reaches 50% of registered capital. The statutory reserve can be used to cover the losses of the companies or to increase the capital of the companies with a decision by the general assembly. There is no withholding tax imposed on the Qatar company paying dividends to parent company located in Singapore.

B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this Annual Report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Since August 1, 2008, our ordinary shares have been listed on the NASDAQ Global Select Market under the symbol “HOLI”.

B. Plan of Distribution

Not applicable

C. Markets

See our disclosures under “Item 9. A. Offer and Listing.”

D. Selling Shareholders

Not Applicable

E. Dilution

Not Applicable

F. Expenses of Issue

Not Applicable

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable

B. Memorandum and Articles of Association

The following represents a summary of certain key provisions of the Company's amended and restated memorandum and articles of association. The summary does not purport to be a summary of all of the provisions of our memorandum and articles of association and of all relevant provisions of BVI law governing the management and regulation of BVI companies.

Register

Our company was incorporated in the BVI on February 6, 2006 under the BVI Business Companies Act (as amended), which we refer to as the Act. We filed a Certificate of Change of Name to change our name from HLS Systems International, Inc. to Hollysys Automation Technologies Ltd. on July 17, 2009. On May 26, 2016, the board of directors of the Company, or our Board, approved our Amended and Restated M&A, to exclude the statutory acquisitions of share procedure under Sections 60 and 61 of the Act. Our Amended and Restated M&A became effective upon the registration by the BVI Registrar of Corporate Affairs on May 27, 2016. Our Board believed that this change was desirable and to the benefit of all of our shareholders because it provided Hollysys with increased flexibility of action to purchase its own shares from time to time based on market conditions, stock prices, and other factors without the delay and expense involved in offering to purchase share from all shareholders or obtaining written consent of such purchase from the shareholders as otherwise required under Sections 60 and 61 of the Act.

Objects and Purposes

Section 5 of our Amended and Restated M&A, grants the Company full power and capacity to carry on or undertake any business or activity and do any act or enter into any transaction not prohibited by the Act or any other BVI legislation.

Directors

A director must, immediately after becoming aware of the fact that he or she is interested in a transaction entered into or to be entered into by us, disclose such interest to our Board, unless (i) the transaction or proposed transaction is between the director and Hollysys and (ii) the transaction or proposed transaction is or is to be entered into in the ordinary course of our business and on usual terms and conditions. The director who is interested in a transaction entered into or to be entered into by Hollysys may (i) vote on a matter relating to the transaction; (ii) attend a meeting of directors at which a matter relating to the transaction arises and be included in the quorum; and (iii) sign a document on behalf of Hollysys, or do any other thing in his capacity as a director, that relates to the transaction.

The directors may fix their compensation for services rendered to us.

By a resolution of directors, the directors may exercise all our powers to borrow money, mortgage or charge our undertakings and property, issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation occurred by us or of any third party.

Each director holds office until his successor takes office or until his earlier death, resignation or removal by the members or a resolution passed by the majority of the remaining directors.

A director shall not require a share qualification.

Directors may only be removed for cause by the shareholders.

Insofar as indemnification by us for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling the company pursuant to provisions of our Amended and Restated M&A, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification by such director, officer or controlling person of us in the successful defense of any action, suit or proceeding is asserted by such director, officer or controlling person in connection with the securities being offered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Rights and Obligations of Shareholders

Dividends

Subject to the Act, our directors may, by resolution of directors, declare dividends and distributions by Hollysys to members and authorize payment on the dividends or distributions so long as that immediately after the distribution, the value of our assets exceeds our liabilities and we are able to pay our debts as they fall due. Any distribution payable in respect of a share which has remained unclaimed for three years from the date when it became due for payment shall, if our Board so resolves, be forfeited and cease to remain owing by us. Our directors may, before authorizing any distribution, set aside out of our profits such sum as they think proper as a reserve fund, and may invest the sum so set apart as a reserve fund upon such securities as they may select.

The holder of each ordinary share has the right to an equal share in any distribution paid by Hollysys.

Voting Rights

Each ordinary share confers on the shareholder the right to one vote at a meeting of the members or on any resolution of members on all matters before the shareholders of the Company.

Rights in the event of winding up

The holder of each ordinary share is entitled to an equal share in the distribution of the surplus assets of Hollysys on a winding up.

Redemption

We may purchase, redeem or otherwise acquire and hold our own shares, for such consideration as the directors consider fit without the consent of members whose shares are to be purchased, redeemed or otherwise acquired.

Liability for Further Capital Calls

Shareholders are not obligated to make any further contributions to our share capital other than as agreed by the subscriber of the relevant shares on subscription. This provision means that holders of ordinary shares will not be obligated to make further contributions to our share capital.

Changes in the rights of shareholders

The rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of not less than three-fourths of the issued shares of that class and the holders of not less than three-fourths of the issued shares of any other class of shares which may be affected by such variation. This is not a statutory requirement under the Act and has been imposed pursuant to the terms of the Amended and Restated M&A.

Meetings

The directors may convene meetings of the members of the Company at such times and in such manner and places as the directors consider necessary or desirable. A meeting of members must be held if requested by members holding at least 30% of the voting rights in respect of the matter for which the meeting is being held. No less than seven days' notice of meetings is required to be given to members.

A meeting of members is properly constituted if at the commencement of the meeting the holder or holders present in person or by proxy entitled to exercise at least 50% of the voting rights of the shares of each class or series of shares entitled to vote as a class or series thereon and the same proportion of the votes of the remaining shares entitled to vote thereon.

A member shall be deemed to be present at the meeting if he participates by telephone or other electronic means and all members participating in the meeting are able to hear each other.

A resolution of members may be approved at a duly constituted meeting of members by the affirmative vote of a simple majority of the votes of those members entitled to vote and voting on the resolution.

A meeting of members held in contravention of the requirement to give notice is valid if members holding not less than 90% of: (a) the total voting rights on all matters to be considered at the meeting; or (b) the votes of each class or series of shares where members are entitled to vote thereon as a class or series together with an absolute majority of the remaining votes, have waived notice of the meeting. Attendance at the meeting is deemed to constitute waiver.

The inadvertent failure of the directors to give notice of a meeting to a member, or the fact that a member has not received notice, does not invalidate the meeting.

A member may be represented at a meeting of members by a proxy who may speak and vote on behalf of the member. A written instrument giving the proxy such authority must be produced at the place appointed for the meeting before the time for holding the meeting at which such person proposes to vote.

Limitations on Ownership and Voting Rights of Securities

There are no limitations on the right of any person, including non-residents or foreign persons, to own, or exercise voting rights with respect to, our securities imposed by BVI law or by our Amended and Restated M&A, other than with respect to our Amended and Restated Rights Plan. See "— Takeover provisions" below.

Change in Control of Company

While directors of Hollysys may be appointed by the members or directors for such terms as may be determined at the time of such appointment, and may be removed by resolution of directors with or without cause, directors may not be removed by the members except for cause.

Our unissued and unreserved shares, including unissued and unreserved preferred shares, are at the disposal of the directors who may offer, allot, grant options over or otherwise dispose of them to such persons at such times and for such consideration, being not less than the par value of the shares being disposed of, and upon such terms and conditions as the directors may determine. While the issuance of preferred shares provides us with flexibility in connection with possible acquisitions or other corporate purposes, it could, among other things, have the effect of delaying, deferring or preventing a change of control transaction and could adversely affect the market price of our ordinary shares. We have no current plan to issue any preferred shares.

Takeover provisions

On August 27, 2010, our Board adopted the Rights Plan that provides for the issuance of one Right for each of our outstanding ordinary shares. In September 2020, we adopted the Amended and Restated Rights Plan which amends and restates the Rights Plan in its entirety. The Amended and Restated Rights Plan extends the expiration date of the Rights Plan from September 27, 2020 to September 27, 2030, decreases the threshold of the triggering event from 20% to 15%, and includes certain modernizing changes to account for certain synthetic equity positions when determining the beneficial ownership of our shareholders. Pursuant to the Amended and Restated Rights Plan, subject to limited exceptions, upon (i) a person or group obtaining ownership of 15% or more of the aggregate total of our ordinary shares then issued and outstanding or (ii) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the aggregate total of our ordinary shares then issued and outstanding, in each case, without the approval of our Board, each Right will entitle the holders, other than the acquiring person or group, to buy, at a purchase price of $160, one share of our Class A preferred shares (the "Class A Preferred Shares"). Holders are entitled to receive, in lieu of each Class A Preferred Share, ordinary shares having a market value at that time of twice the Right's exercise price. Our board of directors is entitled to redeem the Rights at $0.001 per Right at any time before the Rights are exercisable. We refer to the person who acquired 15% or more of our outstanding ordinary shares as the "acquiring person."

The Rights are designed to assure that all of our shareholders receive fair and equal treatment in the event of any proposed takeover and to guard against partial tender offers, open market accumulations, undisclosed voting arrangements and other abusive or coercive tactics to gain control of our company or our board of directors without paying all shareholders a control premium. The Rights may cause substantial dilution to a person or group that acquires 15% or more of the aggregate total of outstanding ordinary shares on terms not approved by our board of directors.

Ownership Threshold

There are no provisions governing the ownership threshold above which shareholder ownership must be disclosed under the laws of the BVI or our Amended and Restated M&A.

Changes in Authorized Shares

Subject to the provisions of the Act, we may, by a resolution of directors or members, amend our Amended and Restated M&A to increase or decrease the number of our shares authorized to be issued. The directors of the Company may, by resolution, authorize a distribution (including a capital distribution) by the Company at a time, of an amount, and to any members they think fit if they are satisfied, on reasonable grounds, that the Company will, immediately after the distribution, satisfy the solvency test. The solvency test is satisfied if the value of the Company's assets exceeds its liabilities, and the Company is able to pay its debts as they fall due.

Transfer Agent and Registrar

The transfer agent and registrar for our ordinary shares is Continental Stock Transfer & Trust Company.

Differences in Corporate Law

The company law of the BVI differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the company law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Protection for minority shareholders

Under the laws of most U.S. jurisdictions, majority and controlling shareholders of a company generally have certain "fiduciary" responsibilities to the minority shareholders. Corporate actions taken by majority and controlling shareholders that are unreasonable and materially detrimental to the interests of minority shareholders may be declared null and void. Minority shareholders may have less protection for their rights under BVI law than they would have under U.S. law.

Powers of directors

Unlike most U.S. jurisdictions, the directors of a BVI company, subject in certain cases to a court's approvals but without shareholders' approval, may implement the sale, transfer, exchange or disposition of any asset, property, part of the business, or securities of the company, with the exception that shareholder approval is required for the disposition of over 50% in the value of the total assets of the company.

Conflict of interests

Similar to the laws of most U.S. jurisdictions, when a director becomes aware of the fact that he or she has an interest in a transaction which we are to enter into, he or she must disclose it to our Board. However, with sufficient disclosure of interest in relation to that transaction, the director who is interested in a transaction entered into or to be entered into us may (i) vote on a matter relating to the transaction; (ii) attend a meeting of directors at which a matter relating to the transaction arises and be included in the quorum; and (iii) sign a document on behalf of us, or do any other thing in his capacity as a director, that relates to the transaction.

Written consent and cumulative voting

Similar to the laws of most U.S. jurisdictions, under the BVI law, shareholders are permitted to approve matters by way of written resolution in place of a formal meeting. BVI law does not make a specific reference to cumulative voting, and there is no provision authorizing cumulative voting under our Amended and Restated M&A. Many U.S. jurisdictions permit cumulative voting.

Shareholder's access to corporate records

A shareholder is entitled, on giving written notice to us, to inspect our (i) Amended and Restated M&A; (ii) register of members; (iii) register of directors; and (iv) minutes of meetings and resolutions of members and of those classes of members of which the shareholder is a member.

Our directors may, if they are satisfied that it would be contrary to our interests to allow a member to inspect any document listed above (or any part thereof), refuse the member to inspect the document or limit the inspection of the document. Our Board may also authorize a member to review our company account if requested.

Indemnification

Under BVI law and our Amended and Restated M&A, we may indemnify against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings, any person who: (a) is or was a party or is threatened to be made a party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was a director; or (b) is or was, at our request, serving as a director of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise.

To be entitled to indemnification, these persons must have acted honestly and in good faith and in what he believes to be the best interest of our company, and they must have had no reasonable cause to believe their conduct was unlawful. Furthermore, such a person must be indemnified by us if he has been successful in the defense of any proceedings.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Mergers and similar arrangements

Under the laws of the BVI, two or more companies may merge or consolidate in accordance with Section 170 of the Act. A merger means the merging of two or more constituent companies into one of the constituent companies, and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent company must approve a written plan of merger or consolidation which must be authorized by a resolution of shareholders.

Shareholders not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the memorandum or articles of association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation.

The shareholders of the constituent companies are not required to receive shares of the surviving or consolidated company but may receive debt obligations or other securities of the surviving or consolidated company, or other assets, or a combination thereof. Further, some or all of the shares of a class or series may be converted into a kind of asset while the other shares of the same class or series may receive a different kind of asset. As such, not all the shares of a class or series must receive the same kind of consideration.

After the plan of merger or consolidation has been approved by the directors and authorized by a resolution of the shareholders, articles of merger or consolidation are executed by each company and filed with the Registrar of Corporate Affairs in the BVI.

Dissenter Rights

A shareholder may dissent from a mandatory redemption of his shares, an arrangement (if permitted by the court), a merger (unless the shareholder was a shareholder of the surviving company prior to the merger and continues to hold the same or similar shares after the merger) and a consolidation. A shareholder properly exercising his dissent rights is entitled to payment in cash of the fair value of his shares.

A shareholder dissenting from a merger or consolidation must object in writing to the merger or consolidation before the vote by the shareholders on the merger or consolidation, unless notice of the meeting was not given to the shareholder. If the merger or consolidation is approved by the shareholders, the company must within 20 days give notice of this fact to each shareholder who gave written objection, and to each shareholder who did not receive notice of the meeting. Such shareholders then have 20 days to give their written election in the form specified by the Act to dissent from the merger or consolidation, provided that in the case of a merger, the 20 days starts when the plan of merger is delivered to the shareholder.

Upon giving notice of his election to dissent, a shareholder ceases to have any rights of a shareholder except the right to be paid the fair value of his shares. As such, the merger or consolidation may proceed in the ordinary course notwithstanding the dissent.

Within seven days of the later of the delivery of the notice of election to dissent and the effective date of the merger or consolidation, the company must make a written offer to each dissenting shareholder to purchase his shares at a specified price that the company determines to be their fair value. The company and the shareholder then have 30 days to agree upon the price. If the company and a shareholder fail to agree on the price within the 30 days, then the company and the shareholder shall each designate an appraiser and these two appraisers shall designate a third appraiser. These three appraisers shall fix the fair value of the shares as of the close of business on the day before the shareholders approved the transaction without taking into account any change in value as a result of the transaction.

Under BVI law, shareholders are not entitled to dissenters' rights in relation to liquidation.

Shareholders' suits

Similar to the laws of most U.S. jurisdictions, BVI law permits derivative actions against its directors. However, the circumstances under which such actions may be brought, and the procedures and defenses available may result in the rights of shareholders of a BVI company being more limited than those of shareholders of a company incorporated and/or existing in the United States.

The High Court of the BVI may, on the application of a shareholder of a company, grant leave to that shareholder to bring proceedings in the name and on behalf of that company, or intervene in proceedings to which the company is a party for the purpose of continuing, defending or discontinuing the proceedings on behalf of the company. In determining whether to grant leave, the High Court of the BVI must take into account (i) whether the shareholder is acting in good faith; (ii) whether the derivative action is in the interests of the company taking account of the views of the company's directors on commercial matters; (iii) whether the proceedings are likely to succeed; (iv) the costs of the proceedings in relation to the relief likely to be obtained; and (v) whether an alternative remedy to the derivative claim is available.

Leave to bring or intervene in proceedings may be granted only if the court is satisfied that (i) the company does not intend to bring, diligently continue or defend, or discontinue the proceedings, as the case may be; or (ii) it is in the interests of the company that the conduct of the proceedings should not be left to the directors or to the determination of the shareholders as a whole.

C. Material Contracts

Except for the following, we have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4, "Information on the Company," Item 7, "Major Shareholders and Related Party Transactions," or Item 5. Operating And Financial Review And Prospects – Contractual Obligations," or elsewhere in this annual report.

D. Exchange Controls

BVI Exchange Controls

There are no material exchange controls restrictions on payment of dividends, interest or other payments to the holders of our ordinary or preferred shares or on the conduct of our operations in the BVI, where we were incorporated. There are no material BVI laws that impose any material exchange controls on us or that affect the payment of dividends, interest or other payments to nonresident holders of our ordinary or preferred shares. BVI law and our Amended and Restated Memorandum and Articles of Association do not impose any material limitations on the right of non-residents or foreign owners to hold or vote our ordinary or preferred shares.

Exchange Controls in China

See our disclosures under "Item 4.B. Business Overview- Regulations."

E. Taxation

The following is a general summary of certain material BVI, China and U.S. federal income tax considerations. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective shareholder. The discussion is based on laws and relevant interpretations thereof in effect as of the date hereof, all of which are subject to change or different interpretations, possibly with retroactive effect.

BVI Taxation

The BVI does not impose a withholding tax on dividends paid to holders of our ordinary shares, nor does the BVI levy any capital gains or income taxes on us. Further, a holder of our ordinary shares who is not a resident of the BVI is exempt from the BVI income tax on dividends paid with respect to the ordinary shares. Holders of ordinary shares are not subject to the BVI income tax on gains realized on the sale or disposition of the ordinary shares.

Our ordinary shares are not subject to transfer taxes, stamp duties or similar charges in the BVI. However, as a company incorporated under the BVI Act, we are required to pay the BVI government an annual license fee based on the number of shares we are authorized to issue.

There is no income tax treaty or convention currently in effect between the United States and the BVI.

Taxation in China

We are a holding company incorporated in the BVI, which indirectly holds our equity interests in our PRC operating subsidiaries. The *PRC Enterprise Income Tax Law*, or the *EIT Law* and its implementation rules, both of which became effective as of January 1, 2008, provide that a PRC enterprise is subject to a standard income tax rate of 25% and China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent, will normally be subject to PRC withholding tax at a rate of 10%, unless there are applicable treaties between the overseas parent's jurisdiction of incorporation and China to reduce such rate.

Under the *Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income*, or the Double Taxation Arrangement, effective as of January 1, 2007, such dividend withholding tax rate is reduced to 5% if a Hong Kong resident enterprise owns over 25% of the PRC company distributing the dividends. Under the aforesaid arrangement, any dividends that our PRC operating subsidiaries pay to their Hong Kong holding companies may be subject to a withholding tax at the rate of 5% if they are not considered to be a PRC "resident enterprise" as described below. However, if the Hong Kong holdings companies are not considered to be the "beneficial owner" of such dividends under the *Notice Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties promulgated by the State Administration of Taxation* on October 27, 2009 (and not a PRC "resident enterprise"), such dividends would be subject to the withholding tax rate of 10%. The withholding tax rate of 5% or 10% applicable will have a significant impact on the amount of dividends to be received by us and ultimately by shareholders.

According to the *Notice Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties*, the term "beneficial owner" refers to a person who has the right to own and dispose of the income and the rights or properties generated from the said income. The "beneficial owner" may be an individual, a company or any other organization which is usually engaged in substantial business operations. A conduit company is not a "beneficial owner." The term "conduit company" refers to a company which is usually established for purposes of dodging or reducing taxes, and transferring or accumulating profits. Such a company is only registered in the country of domicile to satisfy the organizational form as required by law, but it does not engage in such substantial business operations as manufacturing, distribution and management.

In addition to the changes to the current tax structure, under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a resident enterprise and will normally be subject to an EIT of 25% on its global income. The implementing rules define the term "de facto management bodies" as "an establishment that exercises, in substance, overall management and control over the production, business, personnel, accounting, etc., of a Chinese enterprise."

It remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. We do not currently consider our company to be a PRC resident enterprise and we do not withhold the 10% EIT when we distributed dividends to our non-resident enterprise shareholders in the past. However, if the PRC tax authorities determine that we are considered to be a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow: (1) we may be subject to the PRC enterprise income tax at the rate of 25% on our worldwide taxable income; (2) dividend income that we received from our PRC subsidiaries may be exempt from the PRC withholding tax; and (3) dividends paid to our overseas shareholders who are non-PRC resident enterprises as well as gains realized by these shareholders from the transfer of our shares may be regarded as PRC-sourced income and as a result be subject to PRC withholding tax at a rate of up to 10%, subject to any reduction or exemption set forth in relevant tax treaties, and similarly, dividends paid to our overseas shareholders who are non-PRC resident individuals, as well as gains realized by these shareholders from the transfer of our shares, may be regarded as PRC-sourced income and as a result be subject to PRC withholding tax at a rate of 20%, subject to any reduction or exemption set forth in relevant tax treaties.

Under the EIT Law and its implementing rules, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income, but there remain substantial uncertainties as to their interpretation and application by the relevant PRC tax authorities. We intend to comply with any interpretation or notice in relation to the taxation of capital gains issued by the PRC tax authorities in the future.

United States Federal Taxation

The following is a discussion of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares by U.S. holders (as defined below). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's situation. The discussion applies only to U.S. holders that hold their ordinary shares as capital assets (generally property held for investment) within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code. This discussion is based on the Code, income tax regulations promulgated there under, judicial positions, published positions of the Internal Revenue Service, or the IRS, and other applicable authorities, all as in effect as of the date hereof and all of which are subject to change, possibly with retroactive effect. This discussion is general in nature and is not exhaustive of all possible tax considerations, nor does the discussion address any state, local or foreign tax considerations or any U.S. tax considerations (e.g., estate or gift tax) other than U.S. federal income tax considerations, that may be applicable to particular holders.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant in light of particular circumstances, nor does it address the U.S. federal income tax consequences to persons who are subject to special rules under U.S. federal income tax law, including:

- banks, insurance companies or other financial institutions;
- persons subject to the alternative minimum tax;
- tax-exempt organizations;
- corporations that accumulate earnings to avoid United States federal income tax;
- certain former citizens or long-term residents of the United States;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of our capital stock;
- holders who acquired our ordinary shares as compensation or pursuant to the exercise of a stock option;
- persons who hold our ordinary shares as a position in a hedging transaction, "straddle," or other risk reduction transaction; or

For purposes of this discussion, a U.S. holder is (i) an individual who is a citizen or resident of the United States for U.S. federal income tax purposes; (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States (or treated as such under applicable U.S. tax laws), any state thereof, or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source; or (iv) a trust if (a) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) it has a valid election in effect under applicable law and regulations to be treated as a U.S. person for U.S. federal income tax purposes. A non-U.S. holder is a holder that is neither a U.S. holder nor a partnership or other entity classified as a partnership for U.S. federal income tax purposes.

In the case of a partnership or entity classified as a partnership for U.S. federal income tax purposes, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. Partners of partnerships or entities classified as partnerships for U.S. federal income tax purposes should consult their tax advisors regarding the U.S. federal income tax consequences to them of the merger or of the ownership and disposition of our ordinary shares.

Distributions

On August 11, 2016, our Board approved a regular cash dividend policy pursuant to which future cash dividends are expected to be paid to holders of the Company's ordinary shares on an annual basis out of funds legally available for such purpose. Subject to the discussion of the passive foreign investment company rules below, the gross amount of such distributions will be included in the gross income of the U.S. holder as dividend income on the date of receipt to the extent that the distribution is paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such dividends will not be eligible for the dividends-received deduction allowed to corporations. Dividends received by non-corporate U.S. holders, including individuals, may be subject to reduced rates of taxation under current law, provided certain requirements are met.

In the event that the Company is deemed to be a PRC resident enterprise for PRC tax purposes, a U.S. holder may be subject to PRC withholding taxes on dividends paid on our ordinary shares. See "*Taxation — Taxation in China*." In that case, a U.S. holder may be eligible to claim a foreign tax credit with respect to any PRC withholding tax imposed on dividends paid by us. However, the foreign tax credit rules are complex, and their application in connection with Section 7874 of the Code and the Agreement Between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, or the U.S.-PRC Tax Treaty, is not entirely clear at this time. U.S. holders should consult their own tax advisors with respect to any benefits they may be entitled to under the foreign tax credit rules and the U.S.-PRC Tax Treaty.

To the extent that dividends paid on our ordinary shares exceed current and accumulated earnings and profits, the distributions will be treated first as a tax-free return of tax basis on our ordinary shares, and to the extent that the amount of the distribution exceeds tax basis, the excess will be treated as gain from the disposition of those ordinary shares.

Sale or Other Disposition

Subject to the discussion of the passive foreign investment company rules below, U.S. holders of our ordinary shares will recognize taxable gain or loss on any sale, exchange, or other taxable disposition of ordinary shares equal to the difference between the amounts realized for the ordinary shares and the U.S. holder's tax basis in the ordinary shares.

This gain or loss generally will be capital gain or loss. Under current law, non-corporate U.S. holders, including individuals, are eligible for reduced tax rates if the ordinary shares have been held for more than one year. The deductibility of capital losses is subject to limitations.

In the event that the Company is deemed to be a PRC resident enterprise for PRC tax purposes, a U.S. holder may be subject to PRC tax on any gain from the sale or other disposition of the ordinary shares. See "*Taxation — Taxation in China*." In that case, a U.S. holder may be eligible to claim a foreign tax credit with respect to any PRC withholding tax imposed on gain from the sale or other disposition of ordinary shares. However, the foreign tax credit rules are complex, and their application in connection with Section 7874 of the Code and the U.S.-PRC Tax Treaty is not entirely clear at this time. U.S. holders should consult their own tax advisors with respect to any benefits they may be entitled to under the foreign tax credit rules and the U.S.-PRC Tax Treaty.

Unearned Income Medicare Contribution

Certain U.S. holders who are individuals, trusts or estates are required to pay an additional 3.8% tax on net investment income, which includes, among other things, dividends on and capital gains from the sale or other disposition of shares of stock. U.S. holders should consult their own advisors regarding the effect, if any, of this tax provision on their ownership and disposition of our ordinary shares

Passive Foreign Investment Company Rules.

In general, a foreign corporation will be a passive foreign investment company, or PFIC, for any taxable year in which (1) 75% or more of its gross income consists of passive income (such as dividends, interest, rents royalties and certain gains) or (2) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income.

Based on our current income and assets and the value of our outstanding ordinary shares, we do not believe that we were a PFIC for our taxable year ended June 30, 2019 and do not expect to become a PFIC in the foreseeable future. While we do not anticipate becoming a PFIC, changes in the nature of our income or assets, or fluctuations in the market price of our ordinary shares, may cause us to become a PFIC for future taxable years.

If we were a PFIC for any taxable year during which a U.S. Holder owned our ordinary shares, the U.S. Holder may be subject to adverse tax consequences. Generally, gain recognized upon a disposition (including, under certain circumstances, a pledge) of ordinary shares by the U.S. Holder would be allocated ratably over the U.S. Holder's holding period for such share. The amounts allocated to the taxable year of disposition and to taxable years prior to the first taxable year in which we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect for that taxable year for individuals or corporations, as appropriate, and an interest charge would be imposed on the tax attributable to the allocated amounts. Further, to the extent that any distribution received by a U.S. Holder on ordinary shares exceeded 125% of the average of the annual distributions received on such shares during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner. Certain elections may be available that would result in alternative treatments (such as a mark-to-market treatment) of the shares. U.S. Holders should consult their tax advisers to determine whether such elections are available and, if so, what the consequences of the alternative treatments would be in those holders' particular circumstances. U.S. Holders should also consult their tax advisers regarding the determination of whether we are a PFIC and the potential application of the PFIC rules.

Information Reporting and Backup Withholding

Payments of dividends or of proceeds on the disposition of stock made to a holder of our ordinary shares may be subject to information reporting and backup withholding at a current rate of 28% unless such holder provides a correct taxpayer identification number on IRS Form W-9 (or other appropriate withholding form) or establishes an exemption from backup withholding.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

F. Dividends and Paying Agents

On August 11, 2016, the Board of Directors of the Company approved a regular cash dividend policy pursuant to which future cash dividends are expected to be paid to holders of the Company's ordinary shares on an annual basis out of funds legally available for such purpose. On September 26, 2016, the Board of Directors declared a regular annual dividend of $0.20 per ordinary share. The dividend was payable on November 11, 2016 to shareholders of record at the close of business on October 26, 2016. On September 25, 2017, the Board of Directors declared a regular annual dividend of $0.12 per ordinary share for 2017. The dividend was paid on November 06, 2017 to shareholders of record at the close of business on October 16, 2017. On September 27, 2018, the Board of Directors declared a regular cash dividend of $0.18 per ordinary share. The dividend was paid on November 12, 2018 to shareholders of record at the close of business on October 22, 2018. On September 27, 2019, the Board of Directors declared a regular cash dividend of $0.21 per ordinary share. The dividend was paid on November 12, 2019 to shareholders of record at the close of business on October 22, 2019. Continental Stock Transfer & Trust aced as the paying agent in respect of the dividend paid in 2016, 2017, 2018 and 2019. The declaration and payment of future dividends, pursuant to the Company's dividend policy, will be at the discretion of the Board of Directors based on many factors, including but not limited to the Company's financial conditions, its available cash resources, earnings, capital requirements of its businesses, legal requirements, regulatory constraints, industry practice, and other factors that the Board of Directors deems relevant. Accordingly, there can be no assurance that dividends in the future will be equal or similar in amount to the amounts already declared and paid in the past or that the Board of Directors will not decide to suspend or discontinue, altogether, the payment of cash dividends in the future.

G. Statement by Expert

Not applicable.

H. Documents on Display

We have filed this Annual Report on Form 20-F with the SEC under the Exchange Act. Statements made in this Annual Report as to the contents of any document referred to are not necessarily complete. With respect to each such document filed as an exhibit to this Annual Report, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

We are subject to the informational requirements of the Exchange Act as a foreign private issuer and file reports and other information with the SEC. Reports and other information filed by us with the SEC, including this Annual Report on Form 20-F, may be inspected and copied at the public reference room of the SEC at 100 F. Street, N.E., Washington D.C. 20549. You can also obtain copies of this Annual Report on Form 20-F by mail from the Public Reference Section of the SEC, 100 F. Street, N.E., Washington D.C. 20549, at prescribed rates. Additionally, copies of this material may be obtained from the SEC's Internet site at http://www.sec.gov. The SEC's telephone number is 1-800-SEC-0330. In accordance with NASDAQ Stock Market Rule 5250(d), we will also post this annual report on Form 20-F on our website at www.hollysys.com. In addition, we will provide hardcopies of our annual report free of charge to shareholders upon request.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to interest rate risk primarily with respect to our bank loans. A hypothetical 1.0% increase in the annual interest rates for all of our credit facilities under which we had outstanding borrowings as of June 30, 2020, would decrease income before income taxes by $0.2 million for the fiscal year ended June 30, 2020. Management monitors the banks' prime rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

Foreign Exchange Risk

While our reporting currency is the U.S. dollar, 87.4% of our consolidated revenues and consolidated costs and expenses are denominated in RMB, and 92.3% of our assets are denominated in RMB, and the remaining are mainly denominated in SGD. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rates of the U.S. dollar, RMB and SGD. If the RMB or SGD depreciates against the U.S. dollar, the value of our RMB or SGD revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and shareholders' equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of shareholders' equity. An average appreciation or depreciation of the RMB against the US dollar of 5% would increase or decrease our comprehensive income by $2,300,383 and $2,542,529, respectively. An average appreciation or depreciation of the SGD against the US dollar of 5% would increase or decrease our comprehensive income by $523,380 or $578,471 respectively, based on our current revenues, costs and expenses, assets, and liabilities denominated in RMB or SGD as of June 30, 2020.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations for the RMB. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk in any of the currencies in which we operate. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and it may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict its ability to convert RMB into foreign currencies.

Inflation

Inflation in China and the other regions in which we operate has not materially impacted our results of operations. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation. To the extent that we operate in a more diverse range of countries and regions, the risk of inflation on our operations is minimized. If inflation were a significant factor in our financial performance, then certain operating costs and expenses, such as employee compensation and office operating expenses may increase. Additionally, because a substantial portion of our assets from time to time consists of cash and cash equivalents and time deposits with original maturities over three months, high inflation could significantly reduce the value and purchasing power of these assets.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

We do not have any American Depositary Shares.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITIES HOLDERS AND USE OF PROCEEDS

On August 27, 2010, our Board adopted the Rights Plan that provides for the issuance of one Right for each of our outstanding ordinary shares. In September 2020, we adopted the Amended and Restated Rights Plan which amends and restates the Rights Plan in its entirety. The Amended and Restated Rights Plan extends the expiration date of the Rights Plan from September 27, 2020 to September 27, 2030, decreases the threshold of the triggering event from 20% to 15%, and includes certain modernizing changes to account for certain synthetic equity positions when determining the beneficial ownership of our shareholders. Pursuant to the Amended and Restated Rights Plan, subject to limited exceptions, upon (i) a person or group obtaining ownership of 15% or more of the aggregate total of our ordinary shares then issued and outstanding or (ii) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the aggregate total of our ordinary shares then issued and outstanding, in each case, without the approval of our Board, each Right will entitle the holders, other than the acquiring person or group, to buy, at a purchase price of $160, one share of our Class A Preferred Shares, or, in lieu of a Class A Preferred Share, ordinary shares having a market value at that time of twice the Right's exercise price. Our Board is entitled to redeem the Rights at $0.001 per Right at any time before the Rights are exercisable.

In connection with the adoption of the Rights Plan in 2010, we amended our Memorandum and Articles of Association to increase our authorized shares of Class A Preferred Stock from 10,000,000 shares to 90,000,000 shares, and to provide that directors may only be removed by shareholders for cause.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act, our management has carried out an evaluation, with the participation and under the supervision of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2020.

Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Management conducted its evaluation of disclosure controls and procedures under the supervision of our chief executive officer and our chief financial officer. Based upon, and as of the date of this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2020.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2020. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework). Based on our assessment, management believes that, as of June 30, 2020, our internal control over financial reporting was effective based on those criteria.

Our independent registered public accounting firm has audited our internal control over financial reporting as of June 30, 2020 and has issued an attestation report, which appears on page F-6 of this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control procedure over financial reporting during the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Ms. Khiaw Ngoh TAN, one of our independent directors and Chair of Audit Committee, meets the criteria for an “audit committee financial expert,” as established by the SEC. Ms. Tan will not be deemed an “expert” for any other purpose, including, without limitation, for purposes of Section 11 of the Securities Act, as a result of being designated or identified as an audit committee financial expert. The designation or identification of Ms. Tan as an audit committee financial expert does not impose on her any duties, obligations or liability that are greater than the duties, obligations and liability imposed on her as a member of our Audit Committee and board of directors in the absence of such designation or identification.

ITEM 16B. CODE OF ETHICS

In March 2006, our board of directors adopted a code of conduct, or Code of Conduct, which applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, and principal accounting officer. Our Code of Conduct addresses, among other things, honesty and ethical conduct, conflicts of interest, compliance with laws, regulations and policies, confidentiality, and reporting of violations of the code. A copy of the Code of Conduct was filed as Annex G to our registration statement on Form S-4 filed with the SEC on March 30, 2006 and is incorporated herein by reference. Our Code of Conduct is also posted on the corporate governance page of our website at www.hollysys.com. During the fiscal year ended June 30, 2020, there were no waivers from a provision of our Code of Conduct granted to our directors, officers or employees.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

Ernst & Young Hua Ming LLP was our principal accountant for the fiscal years ended June 30, 2020 and 2019. The aggregate fees incurred for fiscal years ended June 30, 2020 and 2019 were $1,288,479 and $1,281,776, respectively. The fees were related to the audit of our annual financial statements and services that are normally provided by the accountant in connection with statutory and regulatory filings.

Audit-Related Fees

The audit-related fees include fees for services rendered related to our quarterly financial information for the fiscal years ended June 30, 2020 and 2019 were $85,363 and $265,119, respectively.

Tax Fees

The aggregate fees incurred in the fiscal years ended June 30, 2020 and 2019 for tax services rendered were $25,361 and $26,739, respectively. The tax service includes tax compliance and tax advice.

All Other Fees

No other fees were incurred in each of the fiscal years ended June 30, 2020 and 2019 for services provided by the principal accountant, other than the services reported above under other captions of this Item 16C.

Audit Committee Pre-Approval Policies and Procedures

Our Audit Committee pre-approves all auditing services and permitted non-audit services to be performed for us by our independent auditor, including the fees and terms thereof (subject to the de minimums exceptions for non-audit services described in Section 10A(i)(l)(B) of the Exchange Act that are approved by our Audit Committee prior to the completion of the audit).

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

As described under Item 16G, between July 7, 2020 and September 1, 2020, relying on home country practice, our Audit Committee consisted of two members (both of whom are independent directors) instead of three members as required under NASDAQ listing rules. Our Audit Committee currently consists of three independent directors. Other than above, we have not asked for, nor have we been granted, an exemption from the applicable listing standards for our Audit Committee.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

There were no purchases of equity securities by us or by any of our affiliates during the period covered by this Annual Report.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

We are incorporated in the BVI and our corporate governance practices are governed by applicable BVI law as well as our memorandum and articles of association. In addition, because our ordinary shares are listed on NASDAQ, we are subject to NASDAQ's corporate governance requirements.

NASDAQ Listing Rule 5620(a) requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year end. NASDAQ Listing Rule 5635(c) also requires each issuer to obtain shareholders' approval when a plan or other equity compensation arrangement is established or materially amended. However, NASDAQ Listing Rule 5615(a)(3) permits a foreign private issuer like us to follow home country practices in lieu of certain requirements of Listing Rule 5600, provided that such foreign private issuer discloses in its annual report filed with the SEC each requirement of Rule 5600 that it does not follow and describes the home country practice followed in lieu of such requirement. We follow home country practice with respect to annual meetings and did not hold an annual shareholder meeting in fiscal 2019. Our BVI counsel, has provided a letter to NASDAQ certifying that under BVI law, we are not required to hold annual shareholder meetings. We may, however, hold annual shareholder meetings in the future if there are significant issues that require shareholders' approvals.

Maples and Calder has also provided a letter to NASDAQ certifying that under BVI law, we are not required to seek shareholder approval for the establishment of our equity compensation plans. In 2015, we followed home country practice with respect to the adoption of our 2015 Equity Plan without seeking shareholder approval.

In addition, between July 7, 2020 and September 1, 2020, we followed home country practice with respect to the requirements on majority independent board and the audit committee composition under NASDAQ Listing Rule 5605. On September 1, 2020, as a result of the appointments of Dr. Teh and Ms. Tan as our independent directors and members of the audit committee, we resumed our compliance with the above Nasdaq rules.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

Our Audited Financial Statements for the Years Ended June 30, 2020, 2019 and 2018 are included at the end of this annual report.

ITEM 19. EXHIBITS

Number	Description
1.1	Amended and Restated Memorandum and Articles of Association (Incorporated by reference to Exhibit 3.1 of the Form 6-K filed with the Securities and Exchange Commission on May 31, 2016).
2.1	Amended and Restated Rights Agreement, dated as of September 24, 2020, Hollysys Automation Technologies Ltd. and Continental Stock Transfer & Trust Company, as Rights Agent, which includes the Form of Right Certificate as Exhibit A and the Summary of Rights as Exhibit B (Incorporated by reference to Exhibit 4.1 of the Form 6-K/A filed with the Securities and Exchange Commission on September 28, 2020).
2.2	Description of Rights of Ordinary Shares Registered Pursuant to Section 12 of the Exchange Act as of June 30, 2020
4.1	Form of Employment Agreement between the Company and its executive officers. (Incorporated by reference to Exhibit 4.4 to the Annual Report on Form 20-F for the fiscal year ended June 30, 2018 filed with the Securities and Exchange Commission on September 21, 2018).
8.1	List of Subsidiaries
11.1	Code of Ethics (included as Annex G to the Proxy Statement/Prospectus contained in Registration Statement on Form S-4 filed with the Securities and Exchange Commission on March 30, 2006 and incorporated by reference herein)
12.1	CEO Certification Pursuant to Rule 13a-14(a) (17 CFR 240.13a-14(a)) (17 CFR 240.13a-14(a)) or Rule 15d-1(a) (17 CFR 240.15d-14(a))
12.2	CFO Certification Pursuant to Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-1(a) (17 CFR 240.15d-14(a))
13.1*	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Ernst & Young Hua Ming LLP
99.1	Hollysys Automation Technologies Ltd. 2015 Equity Incentive Plan (Incorporated by reference to Exhibit 99.1 of the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on December 18, 2015).
101.INS	XBRL Instant Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBLR Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Furnished with this annual report on Form 20-F

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.

/s/ Chit Nim (Colin) Sung

Chit Nim (Colin) Sung
Chief Executive Officer

Date: September 28, 2020

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.

Index to Consolidated Financial Statements

	Page
Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of June 30, 2019 and 2020	F-8
Consolidated Statements of Comprehensive Income for the Years ended June 30, 2018, 2019 and 2020	F-11
Consolidated Statements of Cash Flows for the Years ended June 30, 2018, 2019 and 2020	F-13
Consolidated Statements of Stockholders' Equity for the Years ended June 30, 2018, 2019 and 2020	F-16
Notes to Consolidated Financial Statements	F-17

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Hollysys Automation Technologies Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Hollysys Automation Technologies Ltd. (the "Company") as of June 30, 2019 and 2020, the related consolidated statements of comprehensive income, cash flows and stockholders' equity for each of the three years in the period ended June 30, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2019 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of June 30, 2020, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated September 28, 2020 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for revenue from contracts with customers using a modified retrospective method in the year ended June 30, 2019.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Estimation of expected total costs of integrated solutions contracts

Description of the Matter

During the year ended June 30, 2020, the Company recognized revenue generated from integrated solutions contracts of US$414,272 thousands. As discussed in Note 2 of the consolidated financial statements, revenues generated from integrated solutions contracts are recognized over time based on a cost-to-cost method. The extent of progress towards completion is determined by dividing costs incurred to date by the total amount of costs expected to be incurred for the integrated solutions contracts. The Company reviews and updates the estimated total costs of the contracts at least annually. Revisions to contract revenue and estimated total costs of the contracts are made in the period in which the facts and circumstances that cause the revision become known and are accounted for as changes in estimates.

Auditing the estimated total costs of integrated solutions contracts was complex due to the significant estimation uncertainty in management's determination of the expected total costs, which is principally comprised of the following significant assumptions regarding the Company's future efforts or inputs: direct costs of equipment and materials and direct labor costs. The significant estimation uncertainty is primarily due to the long construction periods and the sensitivity of these assumptions to the determination of the extent of progress towards completion and estimated total costs of integrated solutions contracts, as they both impact revenue and gross profit realization. The significant assumptions are forward-looking and could be affected by future economic and market conditions and changes in the level of effort and costs required to complete the integrated solutions contracts. The total costs incurred may not always be proportionate to the entity's progress in satisfying their performance obligations. Changes in the estimated total costs affects the revenue recognized in the current period and in future periods.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over management's process to determine the estimated total costs of integrated solutions contracts. For example, we tested controls over management's review of the key assumptions and inputs used to determine the estimated total costs at initial set up of the contract and management's review of the subsequent revisions made to the estimated total costs.

To test estimated total costs of the integrated solutions contracts, our audit procedures included, among others, reviewing the key terms and conditions of a sample of contracts, and evaluating the reasonableness of management's assumptions discussed above by comparing the inputs to the Company's historical data or experience for similar contracts and customer specifications. In addition, we recalculated estimated total costs and the extent of progress towards completion as of year-end for a sample of integrated solution contracts and compared them to the Company's computations. For revisions made to the estimated total costs, we evaluated the reasonableness of the subsequent changes by comparing the revised inputs to the approved changed orders and/or supplemental contracts and recalculated the revised estimated costs.

Valuation of goodwill for the Bond Group reporting unit

Description of the Matter	At June 30, 2020, the Company's consolidated goodwill, net of impairment charge, was US$1,460 thousands. As discussed in Notes 2 and 10 of the consolidated financial statements, goodwill is tested for impairment at least annually at the reporting unit level, or more frequently if indicators of impairment exist. Due to downward revision of forecasted future profits of the Bond Group reporting unit to reflect the impact of COVID-19, the Company determined it was more-likely-than-not that an impairment existed and performed a quantitative goodwill impairment test as of June 30, 2020. The Company performed the two-step quantitative goodwill impairment test with the assistance of an independent third-party appraiser and estimated the fair value of the reporting unit using a discounted cash flow approach. As a result, the Company recorded a full impairment charge of US$35,767 thousands attributable to its Bond Group reporting unit. Auditing management's annual goodwill impairment test for the Bond Group reporting unit was complex and highly judgmental due to the significant estimation required by management in forecasting the amount and timing of expected future cash flows and the underlying assumptions used in the discounted cash flow approach to determine the fair value of the Bond Group reporting unit. In particular, the fair value estimate was sensitive to significant assumptions, such as forecasted revenue growth rates, gross profit margins and discount rates. These significant assumptions are forward looking and could be materially affected by future market or global economic conditions.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's goodwill impairment review process, including controls over management's review of the significant assumptions described above and its cash flow forecasts. To test the estimated fair value of the Bond Group reporting unit, we performed audit procedures that included, among others, involving our valuation specialists to assist in assessing the Company's valuation methodology and benchmarking the discount rates used by management to comparable companies. We assessed the reasonableness of the Company's assumptions around forecasted revenue growth rates and gross profit margins, by comparing those assumptions to recent historical performance and current economic and industry trends. We recalculated the reporting unit's fair value based on management's significant assumptions and compared it to the carrying value. We also performed sensitivity analyses of the significant assumptions to evaluate the impact on the change in the implied fair value of goodwill for the reporting unit that would result from changes in the significant assumptions.

/s/ Ernst & Young Hua Ming LLP

We have served as the Company's auditor since 2012.
Beijing, The People's Republic of China
September 28, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Hollysys Automation Technologies Ltd.

Opinion on Internal Control Over Financial Reporting

We have audited Hollysys Automation Technologies Ltd.'s internal control over financial reporting as of June 30, 2020, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Hollysys Automation Technologies Ltd. (the "Company") maintained, in all material respects, effective internal control over financial reporting as of June 30, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of June 30, 2019 and 2020, the related consolidated statements of comprehensive income, cash flows and stockholders' equity for each of the three years in the period ended June 30, 2020, and the related notes and our report dated September 28, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young Hua Ming LLP

Beijing, The People's Republic of China
September 28, 2020

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

	Notes	June 30, 2019	June 30, 2020
ASSETS			
Current assets:			
Cash and cash equivalents		$ 332,509	$ 288,782
Time deposits with original maturities over three months		145,139	324,949
Restricted cash		22,260	8,663
Accounts receivable, net of allowance for doubtful accounts of $47,162 and $41,618 as of June 30, 2019 and 2020, respectively	4	282,594	242,449
Costs and estimated earnings in excess of billings, net of allowance for doubtful accounts of $6,981 and $6,150 as of June 30, 2019 and 2020, respectively	5	197,955	186,879
Accounts receivable retention	6	5,468	6,088
Other receivables, net of allowance for doubtful accounts of $4,879 and $6,224 as of June 30, 2019 and 2020, respectively		27,109	28,257
Advances to suppliers		12,901	17,255
Amounts due from related parties	22	36,295	21,444
Inventories	3	42,983	48,210
Prepaid expenses		644	648
Income tax recoverable		3,621	870
Total current assets		**1,109,478**	**1,174,494**
Non-current assets:			
Restricted cash		3,618	21,652
Costs and estimated earnings in excess of billings		—	2,309
Accounts receivable retention	6	6,390	4,717
Prepaid expenses		2	6
Property, plant and equipment, net	7	76,006	78,050
Prepaid land leases	8	16,599	15,742
Intangible assets, net	9	1,383	1,713
Investments in equity investees	11	40,386	41,133

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

	Notes	June 30, 2019	June 30, 2020
Investments securities	11	4,776	4,640
Goodwill	10	37,054	1,460
Deferred tax assets	19	13,725	8,909
Operating lease right-of-use assets	20	—	6,010
Total non-current assets		**199,939**	**186,341**
Total assets		**$1,309,417**	**$1,360,835**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities (including amounts of the VIE without recourse to the primary beneficiary of $17,776 and $6,919 as of June 30, 2019 and 2020, respectively):			
Derivative financial liability	15	$ 758	$ —
Short-term bank loans	13	1,909	—
Current portion of long-term loans	14	20,310	320
Accounts payable		110,384	117,460
Construction costs payable		94	2,350
Deferred revenue		141,385	139,242
Accrued payroll and related expenses		14,512	17,245
Income tax payable		2,541	3,142
Warranty liabilities	12	8,039	6,604
Other tax payables		665	3,279
Accrued liabilities		35,507	31,595
Amounts due to related parties	22	5,395	3,576
Operating lease liabilities	20	—	2,489
Total current liabilities		**341,499**	**327,302**
Non-current liabilities (including amounts of the VIE without recourse to the primary beneficiary of nil and nil as of June 30, 2019 and 2020, respectively):			
Accrued liabilities		3,530	5,635
Long-term loans	14	978	15,780
Accounts payable		—	2,530
Deferred tax liabilities	19	12,173	13,940
Warranty liabilities	12	4,077	3,460
Operating lease liabilities	20	—	3,302
Total non-current liabilities		**20,758**	**44,647**

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

	Notes	June 30, 2019	June 30, 2020
Total liabilities		**362,257**	**371,949**
Commitments and contingencies	23	—	—
Stockholders' equity:	16		
Ordinary shares, par value $0.001 per share, 100,000,000 shares authorized; 60,342,099 shares and 60,537,099 shares issued and outstanding as of June 30, 2019 and 2020, respectively		60	61
Additional paid-in capital		223,634	224,043
Statutory reserves		48,698	49,423
Retained earnings		708,515	774,473
Accumulated other comprehensive income		(35,521)	(63,517)
Total Hollysys Automation Technologies Ltd. stockholders' equity		945,386	984,483
Non-controlling interests		1,774	4,403
Total equity		947,160	988,886
Total liabilities and equity		**$1,309,417**	**$1,360,835**

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In US dollars thousands except for number of shares and per share data)

	Notes	Year ended June 30, 2018	2019	2020
Net revenues				
Integrated solutions contracts revenue (including revenue from related parties of $996, $1,323 and $227 for the years ended June 30, 2018, 2019 and 2020, respectively)		$ 466,461	$ 467,371	$ 414,272
Product sales (including revenue from related parties of $10,834, $10,287 and $3,003 for the years ended June 30, 2018, 2019 and 2020, respectively)		40,233	33,102	20,144
Revenue from services		34,074	69,868	68,911
Total net revenues		**540,768**	**570,341**	**503,327**
Costs of integrated solutions contracts (including purchases from related parties of $88, nil and $1,400 for the years ended June 30, 2018, 2019 and 2020, respectively)		314,233	325,523	281,818
Costs of products sold (including purchases from related parties of $5, $706 and $177 for the years ended June 30, 2018, 2019 and 2020, respectively)		10,770	7,571	5,456
Costs of services rendered		9,885	26,081	25,485
Gross profit		**205,880**	**211,166**	**190,568**
Operating expenses				
Selling		27,158	28,926	30,642
General and administrative		46,323	40,701	39,114
Goodwill impairment charge		—	11,623	35,767
Research and development (including research and development from related parties of nil, nil and $655 for the years ended June 30, 2018, 2019 and 2020, respectively)		36,605	37,025	41,876
VAT refunds and government subsidies		(24,450)	(30,735)	(26,259)
Total operating expenses		**85,636**	**87,540**	**121,140**
Income from operations		**120,244**	**123,626**	**69,428**
Other income, net (including other income from related parties of $731, $2,520 and $3,414 for the years ended June 30, 2018, 2019 and 2020, respectively)		4,349	2,710	4,683

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – continued
(In US dollars thousands except for number of shares and per share data)

	Notes	Year ended June 30, 2018	2019	2020
Foreign exchange (loss) gain		(1,099)	(1,161)	599
Gains on deconsolidation of subsidiaries where the Company retains an equity interest		—	5,768	—
Gains on disposal of an investment in an equity investee		—	—	5,763
Share of net (losses) income of equity investees		(1,571)	404	3,131
Interest income		7,318	11,839	13,060
Interest expenses		(692)	(575)	(306)
Dividend income from equity investments		1,093	1,112	1,139
Income before income taxes		**129,642**	**143,723**	**97,497**
Income tax expenses	19	22,205	18,184	18,171
Net income		**107,437**	**125,539**	**79,326**
Less: Net income (losses) attributable to non-controlling interests		276	278	(70)
Net income attributable to Hollysys Automation Technologies Ltd.		**$ 107,161**	**$ 125,261**	**$ 79,396**
Other comprehensive income, net of tax of nil				
Translation adjustments		$ 17,410	$ (31,602)	$ (28,313)
Comprehensive income		**124,847**	**93,937**	**51,013**
Less: Comprehensive income (loss) attributable to non-controlling interests		280	17	(387)
Comprehensive income attributable to Hollysys Automation Technologies Ltd.		**$ 124,567**	**$ 93,920**	**$ 51,400**
Net income per share:				
Basic	21	$ 1.77	2.07	1.31
Diluted	21	$ 1.75	2.05	1.31
Shares used in net income per share computation:				
Basic		60,434,019	60,456,524	60,478,717
Diluted		61,248,565	61,273,884	60,609,242

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In US dollars thousands)

	Year ended June 30,		
	2018	2019	2020
Cash flows from operating activities:			
Net income	$ 107,437	$ 125,539	$ 79,326
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	8,217	7,879	8,483
Amortization of prepaid land leases	270	264	384
Amortization of intangible assets	801	311	300
Allowance for doubtful accounts	8,033	2,119	690
(Gain) loss on disposal of long-lived assets	(2,053)	13	(67)
Impairment loss on property, plant and equipment	—	—	17
Goodwill impairment charge	—	11,623	35,767
Share of net loss (income) of equity investees	1,571	(404)	(3,131)
Dividends received from an equity investee	—	3,865	—
Gains on deconsolidation of subsidiaries where the Company retains an equity interest	—	(5,768)	—
Gains on disposal of an investment of an equity investee	—	—	(5,763)
Share-based compensation expenses	1,207	238	410
Deferred income tax (benefit) expenses	(1,525)	(6,197)	6,414
Accretion of convertible bond	230	230	57
Fair value adjustments of a bifurcated derivative	(75)	346	—
Changes in operating assets and liabilities:			
Accounts receivable and retention	(28,283)	(33,782)	30,894
Costs and estimated earnings in excess of billings	1,817	(2,757)	3,186
Inventories	(11,429)	(3,773)	(6,474)
Advances to suppliers	232	(5,357)	(4,745)
Other receivables	(9,973)	2,647	(1,897)
Prepaid expenses	(84)	62	(19)
Due from related parties	1,286	6,600	11,988

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS – continued
(In US dollars thousands)

	Year ended June 30,		
	2018	2019	2020
Accounts payable	4,113	(14,027)	15,010
Deferred revenue	28,150	10,836	1,825
Accruals and other payable	(3,163)	11,488	(1,663)
Due to related parties	3,023	(1,494)	(1,819)
Income tax payable	(1,124)	1,740	3,335
Other tax payables	(2,959)	(11,720)	2,616
Net cash provided by operating activities	**$ 105,719**	**$ 100,521**	**$ 175,124**
Cash flows from investing activities:			
Time deposits placed with banks	(179,194)	(256,328)	(426,846)
Maturity of time deposits	137,839	245,880	242,174
Purchases of property, plant and equipment	(2,304)	(3,488)	(8,098)
Prepayments for land lease	—	(7,099)	—
Proceeds from disposal of property, plant and equipment	376	301	983
Investments made in equity investees	(5,882)	—	—
Dividends received in excess of cumulative equity in earnings from an equity investee	—	8,920	—
Deconsolidation of subsidiary, net of cash disposed	—	(1,878)	—
Acquisition of a subsidiary, net of cash acquired	(583)	—	(251)
Purchase of equity investments	—	(740)	—
Proceeds received from disposal of equity investments	—	4,544	4,458
Net cash used in investing activities	**(49,748)**	**(9,888)**	**(187,580)**
Cash flows from financing activities:			
Proceeds from short-term bank loans	$ 5,942	$ 5,908	$ 2,371
Repayments of short-term bank loans	(11,334)	(6,875)	(4,243)
Proceeds from long-term bank loans	984	730	15,423
Repayments of long-term bank loans	(548)	(512)	(437)
Capital contributions from a subsidiaries' non-controlling interest shareholders	—	1,456	2,139
Payment of dividends	(7,241)	(10,862)	(12,713)
Principal repayment of convertible bond	—	—	(20,753)

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS – continued
(In US dollars thousands)

	Year ended June 30,		
	2018	**2019**	**2020**
Net cash used in financing activities	**(12,197)**	**(10,155)**	**(18,213)**
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	5,839	(9,400)	(8,621)
Net increase (decrease) in cash, cash equivalents and restricted cash	**$ 49,613**	**$ 71,078**	**$ (39,290)**
Cash, cash equivalents and restricted cash, beginning of year	237,696	287,309	358,387
Cash, cash equivalents and restricted cash, end of year	**$ 287,309**	**$ 358,387**	**$ 319,097**
Reconciliation of cash, cash equivalents and restricted cash to the consolidated balance sheets:			
Cash and cash equivalents	265,675	332,509	288,782
Current portion of restricted cash	20,233	22,260	8,663
Non-current portion of restricted cash	1,401	3,618	21,652
Total cash, cash equivalents and restricted cash	**287,309**	**358,387**	**319,097**
Supplemental disclosures of cash flow information:			
Interest expense paid	$ 462	$ 575	$ 306
Income tax paid	$ 24,896	$ 24,855	$ 8,772
Supplemental disclosures of non-cash information:			
Acquisition of property, plant and equipment included in construction costs payable and accrued liabilities	$ 4,374	$ 3,205	$ 6,759
Acquisition of equity interest with non-cash consideration	$ 2,345	$ —	$ —
Disposal of shares of a subsidiary	$ —	$ 4,110	$ —

HOLLYSYS AUTOMATION TECHNOLOGIES LTD.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In US dollars thousands except for number of shares)

	Ordinary shares		Additional paid-in capital	Statutory reserves	Retained earnings	Accumulated other comprehensive income	Total Hollysys Automation Technologies Ltd. stockholders' equity	Non-controlling interest	Total equity
Balance at June 30, 2017	**60,342,099**	**$ 60**	**$ 222,189**	**$ 41,130**	**$482,999**	**$ (22,859)**	**$ 723,519**	**$ 21**	**$723,540**
Share-based compensation	—	—	1,207	—	—	—	1,207	—	1,207
Net income for the year	—	—	—	—	107,161	—	107,161	276	107,437
Appropriations to statutory reserves	—	—	—	4,840	(4,840)	—	—	—	—
Dividend paid	—	—	—	—	(7,241)	—	(7,241)	—	(7,241)
Translation adjustments	—	—	—	—	—	17,406	17,406	4	17,410
Balance at June 30, 2018	**60,342,099**	**$ 60**	**$ 223,396**	**$ 45,970**	**$578,079**	**$ (5,453)**	**$ 842,052**	**$ 301**	**$842,353**
Cumulative effect of change in accounting principle (Note 2)	—	—	—	—	18,765	—	18,765	—	18,765
Share-based compensation	—	—	238	—	—	—	238	—	238
Net income for the year	—	—	—	—	125,261	—	125,261	278	125,539
Appropriations to statutory reserves	—	—	—	2,728	(2,728)	—	—	—	—
Dividend paid	—	—	—	—	(10,862)	—	(10,862)	—	(10,862)
Deconsolidation of a subsidiary	—	—	—	—	—	1,273	1,273	—	1,273
Capital contribution from a subsidiary's non-controlling interest shareholder	—	—	—	—	—	—	—	1,456	1,456
Translation adjustments	—	—	—	—	—	(31,341)	(31,341)	(261)	(31,602)
Balance at June 30, 2019	**60,342,099**	**$ 60**	**$ 223,634**	**$ 48,698**	**$708,515**	**$ (35,521)**	**$ 945,386**	**$ 1,774**	**$947,160**
Issuance of ordinary shares	195,000	1	(1)	—	—	—	—	—	—
Share-based compensation	—	—	410	—	—	—	410	—	410
Net income for the year	—	—	—	—	79,396	—	79,396	(70)	79,326
Appropriations to statutory reserves	—	—	—	725	(725)	—	—	—	—
Dividend paid	—	—	—	—	(12,713)	—	(12,713)	—	(12,713)
Capital contribution from subsidiaries' non-controlling interest shareholders	—	—	—	—	—	—	—	3,016	3,016
Translation adjustments	—	—	—	—	—	(27,996)	(27,996)	(317)	(28,313)
Balance at June 30, 2020	**60,537,099**	**$ 61**	**$ 224,043**	**$ 49,423**	**$774,473**	**$ (63,517)**	**$ 984,483**	**$ 4,403**	**$988,886**

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020
(Amounts in thousands except for number of shares and per share data)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BUSINESS BACKGROUND

Hollysys Automation Technologies Ltd. ("Hollysys" or the "Company") was established under the laws of the British Virgin Islands ("BVI") on February 6, 2006.

As of June 30, 2020, the Company had subsidiaries incorporated in countries and jurisdictions including the People's Republic of China ("PRC"), Singapore, Malaysia, Macau, Hong Kong, BVI, India, Qatar and Indonesia.

The Company makes a determination at the inception of each arrangement whether an entity in which the Company has made an investment or in which the Company has other variable interests is considered a variable interest entity ("VIE"). The Company consolidates a VIE when it is deemed to be the primary beneficiary. The primary beneficiary of a VIE is the party that meets both of the following criteria: (i) has the power to make decisions that most significantly affect the economic performance of the VIE; and (ii) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Periodically, the Company determines whether any changes occurred requiring a reassessment of whether it is the primary beneficiary of a VIE. If the Company is not deemed to be the primary beneficiary in a VIE, the investment or other variable interests in a VIE is accounted for in accordance with applicable GAAP.

In November 2015, CECL was established in Doha, Qatar, by CCPL, a wholly-owned subsidiary of the Company incorporated under the laws of Singapore, and a Qatar citizen as a nominee shareholder, with 49% and 51% of equity interest in CECL, respectively. Through a series of contractual arrangements signed in November 2015 and September 2016, CCPL is entitled to appoint a majority of the directors of CECL who have the power to direct the activities that significantly impact CECL's economic performance. In addition, CCPL is entitled to 95% of the variable returns or loss from CECL's operations. In accordance with ASC 810, *Consolidation*, despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between CCPL and CECL through the series of contractual arrangements and CCPL is considered the primary beneficiary of CECL, which is a VIE. Therefore, CECL was consolidated by the Company since inception.

The following tables set forth the financial statement balances and amounts of the VIE that were included in the consolidated financial statements:

	June 30,	
	2019	**2020**
Current assets	$ 23,946	$ 9,708
Non-current assets	167	183
Total assets	24,113	9,891
Current liabilities	$ 17,776	$ 6,919
Total liabilities	17,776	6,919

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

	Year ended June 30,	
	2019	2020
Net revenue	$ 32,751	$ 981
Cost of revenue	25,527	(2,147)
Net profit	5,521	3,128
Net cash (used in) provided by operating activities	(4,829)	1,120
Net cash used in investing activities	—	—
Net cash provided by financing activities	$ —	$ —

As of June 30, 2020, the current assets of the VIE included amounts due from subsidiaries of the Group amounting to $7,385 (June 30, 2019: $3,506), and the current liabilities of the VIE included amounts due to subsidiaries of the Group amounting to $267 (June 30, 2019: nil), which were all eliminated upon consolidation by the Company. Creditors of the VIE do not have recourse to the general credit of the Company for the liabilities of the VIE. The Company is obligated to absorb the VIE's expected losses and to provide financial support to the VIE if required. For the years ended June 30, 2019 and 2020, the Company has not provided financial support other than that which it was contractually required to provide. The Company believes that there are no assets of the VIE that can be used only to settle obligations of the VIE.

In July 2017, Bond Corporation Pte. Ltd ("BCPL"), a wholly-owned Singapore subsidiary of the Company, and a Malaysian citizen (the "Trustee") entered into a trust deed, under which, 49.1% of BCPL's equity interests in Bond M & E Sdn. Bhd. ("BMJB"), a Malaysian company, which previously was a 100% subsidiary of BCPL, was transferred to the Trustee. According to the trust deed, all of the beneficial interests in BMJB belong to BCPL and the Trustee shall hold the legal title of the transferred shares in trust for and act on behalf of BCPL absolutely. Any dividend, interest and other benefits received or receivable by the Trustee will be transferred to BCPL. The Trustee shall exercise the managerial rights and voting power in a manner directed by a prior written notice from BCPL. The Trustee shall be obligated to vote in the same manner as BCPL in the absence of any written notice. In addition, an undated Form of Transfer of Securities with the transferee's name left blank was duly executed by the Trustee and delivered to BCPL. Therefore, BCPL can transfer the 49.1% of equity interests to any party at any time without further approval by the Trustee. Accordingly, the Company believes it holds all beneficial rights, obligation and the power of the 100% equity interest in BMJB, and therefore consolidates BMJB in its consolidated financial statements.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The Company, its subsidiaries and the VIE, (collectively the "Group") are principally engaged in the manufacture, sale and provision of integrated automation systems and services, mechanical and electrical solution services and installation services in the PRC, Southeast Asia and the Middle East.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and a VIE. All inter-company transactions and balances between the Company, its subsidiaries, and the VIE are eliminated upon consolidation. The Company included the results of operations of acquired businesses from the respective dates of acquisition.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates estimates, including those related to the expected total costs of integrated solutions contracts and service contracts, allowance for doubtful accounts, fair value of bifurcated derivative, fair value of the retained equity interest of a former subsidiary, warranties, valuation allowance of deferred tax assets, impairment of goodwill and other long-lived assets, goodwill related to the acquisition of Shandong Lukang Pharmaceutical Engineering Design Co., Ltd ("Shandong Lukang"), provision for loss contracts, incremental borrowing rate ("IBR") for operating leases and net realizable value of inventory. Management's estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ materially from those estimates.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Foreign currency translations and transactions

The Company's functional currency is the United States dollars ("US dollars" or "$"); whereas the Company's subsidiaries and VIE use the primary currency of the economic environment in which their operations are conducted as their functional currency. According to the criteria of Accounting Standards Codification ("ASC") Topic 830, *Foreign currency matters* ("ASC 830"), the Company uses the US dollars as its reporting currency.

The Company translates the assets and liabilities into US dollars using the rate of exchange prevailing at the balance sheet date, and the consolidated statements of comprehensive income are translated at average rates during the reporting period. Adjustments resulting from the translation of financial statements from the functional currency into US dollars are recorded in stockholders' equity as part of accumulated other comprehensive income. Transactions dominated in currencies other than the functional currency are translated into functional currency at the exchange rates prevailing on the transaction dates, and the exchange gains or losses are reflected in the consolidated statements of comprehensive income for the reporting period.

Transactions denominated in foreign currencies are measured into the functional currency at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are re-measured at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are included in earnings.

Business combinations

The Company accounts for its business combinations using the purchase method of accounting in accordance with ASC Topic 805, *Business Combinations* ("ASC 805"). The purchase method of accounting requires that the consideration transferred to be allocated to the assets, including separately identifiable assets and liabilities the Company acquired based on their estimated fair values. The consideration transferred of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total cost of the acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of comprehensive income.

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and non-controlling interests is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Company determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets and forecasted cash flows over that period.

Acquisition-related costs are recognized as general and administrative expenses in the consolidated statements of comprehensive income as incurred.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank deposits, which are unrestricted as to withdrawal and use. All highly liquid investments that are readily convertible to known amounts of cash with original stated maturities of three months or less are classified as cash equivalents.

Time deposits with original maturities over three months

Time deposits with original maturities over three months consist of deposits placed with financial institutions with original maturity terms from four months to one year. As of June 30, 2020, $306,322, $16,127, and $2,500 of time deposits with original maturities over three months were placed in financial institutions in the PRC, Singapore, and Malaysia, respectively. As of June 30, 2019, $137,036, $7,403, and $700 of time deposits with original maturities over three months were placed in financial institutions in the PRC, Singapore, Malaysia, respectively.

Restricted cash

Restricted cash mainly consists of the cash deposited in banks pledged for performance guarantees or bank loans. These cash balances are not available for use until these guarantees are expired or cancelled, or the loans are repaid.

Revenue recognition

Integrated solutions contracts

Revenues generated from designing, building, and delivering customized integrated industrial automation systems are recognized over time as customer simultaneously receives and consumes the benefits provided by the Company's performance as it occurs or because the customers control the related asset as it is created or enhanced. The contracts for designing, building, and delivering customized integrated industrial automation systems are legally enforceable and binding agreements between the Company and customers. The duration of contracts depends on the contract size and ranges from six months to five years excluding the warranty period. The majority of the contract duration is longer than one year.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Revenue generated from mechanical and electrical solution contracts for the construction or renovation of buildings, rail or infrastructure facilities are also recognized over time as customer simultaneously receives and consumes the benefits provided by the Company's performance as it occurs or because the customers control the related asset as it is created or enhanced. The contracts for mechanical and electrical solution are legally enforceable and binding agreements between the Company and customers. The duration of contracts depends on the contract size and the complexity of the construction work and ranges from six months to three years excluding the warranty period. The majority of the contract duration is longer than one year.

In accordance with ASC Topic 606, *Revenue from Contract with Customers* ("ASC 606"), recognition is based on an estimate of the income earned to date, less income recognized in earlier periods. Extent of progress toward completion is measured using the cost-to-cost method where the progress (the percentage complete) is determined by dividing costs incurred to date by the total amount of costs expected to be incurred for the integrated solutions contracts. The Company's estimates of total costs expected to be incurred for an integrated solutions contract include assumptions regarding the Company's future effort or input such as direct costs of equipment and materials and direct labor costs. Significant estimation uncertainty exists due to the long construction periods and sensitivity of these assumptions to extent of progress towards completion and estimated total costs of integrated solutions contracts, as both impact revenue and gross profit realization. The significant assumptions are forward-looking and could be affected by future economic and market conditions and changes in the level of efforts and costs required to complete the integrated solutions contracts. The total costs incurred may not always be proportionate to the entity's progress in satisfying their performance obligations. Changes in the estimated total costs affects the revenue recognized in the current period and in future periods. Provisions, if any, are made in the period when anticipated losses become evident on uncompleted contracts.

The Company reviews and updates the estimated total costs of the contracts at least annually. Revisions to contract revenue and estimated total costs of the contracts are made in the period in which the facts and circumstances that cause the revision become known and are accounted for as changes in estimates. Unapproved change orders are considered claims. Claims are recognized only when it has been awarded by customers. Excluding the impact of change orders, if the estimated total costs of integrated solutions contracts, which were revised during the years ended June 30, 2018, 2019 and 2020, had been used as a basis of recognition of integrated solutions contracts revenue since the contract commencement, net income for the years ended June 30, 2018, 2019 and 2020 would have been decreased by $10,466, $14,019, and $14,181, respectively; basic net income per share for years ended June 30, 2018, 2019 and 2020 would have been decreased by $0.17, $0.23, and $0.23, respectively; and diluted net income per share for the years ended June 30, 2018, 2019 and 2020, would have decreased by $0.17, $0.23, and $0.23, respectively. Revisions to the estimated total costs for the years ended June 30, 2018, 2019 and 2020 were made in the ordinary course of business.

The Company combines a group of contracts as one project if they are closely related and are, in substance, parts of a single project with an overall profit margin. The Company segments a contract into several projects, when they are of different business substance, for example, with different business negotiation, solutions, implementation plans and margins.

Revenue in excess of billings on the contracts is recorded as costs and estimated earnings in excess of billings. Billings in excess of revenues recognized on the contracts are recorded as deferred revenue until the above revenue recognition criteria are met. Recognition of accounts receivable and costs and estimated earnings in excess of billings are discussed below.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The Company generally recognizes 100% of the contractual revenue when the customer acceptance has been obtained and no further major costs are estimated to be incurred, and normally this is also when the warranty period commences. Revenues are presented net of value-added tax collected on behalf of the government.

Product sales

The Company's products mainly include hardware and software. Revenue generated from sales of products is recognized when control of promised goods is transferred to the Company's customers in an amount of consideration to which an entity expects to be entitled to in exchange for those goods. Revenues are presented net of value-added tax collected on behalf of the government.

Service rendered

The Company mainly provides the following services:

The Company provides maintenance service which is generally completed onsite at the customers' premises. Revenue is recognized over time by using the cost-to-cost method to measure the progress towards the completion of the performance obligation as the customer simultaneously receives and consumes the benefits from the services rendered by the Company. As costs incurred represent work performed, the Company believes this method best depicts transfer of control of the asset to the customer. Revenues are presented net of value-added tax collected on behalf of the government.

The Company also separately sells extended warranties to their integrated solution customers for a fixed period. Such arrangements are negotiated separately from the corresponding integrated solution system and are usually entered into upon the expiration of the warranty period attached to the integrated solutions contracts. During the extended warranty period, the Company is responsible for addressing issues related to the system. Part replacement is not covered in such services. The Company uses time elapsed to measure the progress toward complete satisfaction of the performance obligation and recognizes revenue ratably over the contractual term. Revenues are presented net of value-added tax collected on behalf of the government.

Excluding the impact of change orders, if the estimated total costs of service contracts, which were revised during the year ended June 30, 2020, had been used as a basis of recognition of service contract revenue since the contract commencement, net income for the years ended June 30, 2019 and 2020 would have been decreased by $2,641 and $4,603, respectively; basic net income per share for years ended June 30, 2019 and 2020 would have been decreased by $0.04 and $0.08, respectively; and diluted net income per share for the years ended June 30, 2019 and 2020, would have decreased by $0.04 and $0.08, respectively. Revisions to the estimated total costs for the years ended June 30, 2019 and 2020 were made in the ordinary course of business.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Contract assets

Contract assets include amounts that represent the rights to receive payment for goods or services that have been transferred to the customer, with the rights conditional upon something other than the passage of time. Accordingly, the Company include the following in the contract assets: (i) unbilled amounts resulting from revenue recognized exceeding amounts billed to customers for integrated solutions contracts and maintenance service contracts using the cost-to-cost method, which are recorded in the balance sheet as costs and estimated earnings in excess of billing; and (ii) accounts receivable retention amounts which were held by customers from Concord and Bond Groups upon the issuance of the final completion certificate and completion of the defects liability period.

Performance of the integrated solutions contracts will often extend over long periods and the Company's right to receive payments depends on its performance in accordance with the contractual terms. There are different billing practices in the PRC, overseas operating subsidiaries and the VIE (Concord and Bond Groups). For the Company's PRC subsidiaries, billings are issued based on milestones specified in the contracts negotiated with customers. In general, there are four milestones: 1) project commencement, 2) system manufacturing and delivery, 3) installation, trial-run and customer acceptance, and 4) end of the warranty period. The amounts to be billed at each milestone are specified in the contract. All integrated solutions contracts have the first milestone, but not all contracts require prepayments. The length of each interval between two continuous billings under an integrated solutions contract varies depending on the duration of the contract (under certain contracts, the interval lasts more than a year) and the last billing to be issued for an integrated solutions contract is scheduled at the end of a warranty period. There are no significant financing components in the integrate solutions contracts.

For Concord and Bond Groups, billing claims rendered are subject to the further approval and certification of the customers or their designated consultants. Payments are made to Concord or Bond Groups based on the certified billings according to the payment terms mutually agreed between the customers and Concord or Bond Groups. Certain amounts are retained by the customer and payable to Concord and Bond Groups upon the issuance of the final completion certificate and completion of the defects liability period. The retained amounts are recorded as accounts receivable retention.

Contract liabilities

Contract liabilities include the amounts that reflect obligations to provide goods or services for which payment has been received. Contract liabilities are presented in the balance sheet as deferred revenue.

The Company receives prepayments for integrated solutions contracts, product sales and service contracts for goods or services to be provided in the future. Prepayments received are recorded as deferred revenue, which is recognized as revenue based on the revenue recognition policies disclosed above for integrated solutions contracts, product sales and services rendered.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Accounts receivable, costs and estimated earnings in excess of billings and accounts receivable retention

The carrying value of the Company's accounts receivable, costs and estimated earnings in excess of billings and accounts receivable retention, net of the allowance for doubtful accounts, represents their estimated net realizable value. An allowance for doubtful accounts is recognized when it is probable that the Company will not collect the amount and is written off in the period when deemed uncollectible. The Company periodically reviews the status of contracts and decides how much of an allowance for doubtful accounts should be made based on factors surrounding the credit risk of customers and historical experience. The Company does not require collateral from its customers and does not charge interest for late payments by its customers.

Inventories

Inventories are composed of raw materials, work in progress, purchased and manufactured finished goods and low value consumables. Inventories are stated at the lower of cost and net realizable value. The Company uses the weighted average cost method as its inventory costing method.

The Company assesses the lower of cost and net realizable value for non-saleable, excess or obsolete inventories based on its periodic review of inventory quantities on hand and the latest forecasts of product demand and production requirements from its customers. The Company writes down inventories for non-saleable, excess or obsolete raw materials, work-in-process and finished goods by charging such write-downs to cost of integrated solutions contracts and/or costs of products sold.

Warranties

Warranties represent a major term under integrated solutions contracts and maintenance service contracts, which will last, in general, for one to three years or otherwise specified in the terms of the contract. The Company accrues warranty liabilities under a service contract as a percentage of revenue recognized, which is derived from its historical experience, in order to recognize the warranty cost for the related contract throughout the contract period.

Property, plant and equipment, net

Property, plant and equipment, other than construction in progress, are recorded at cost and are stated net of accumulated depreciation and impairment, if any. Depreciation expense is determined using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	30 - 50 years
Machinery	5 - 10 years
Software	3 - 10 years
Vehicles	5 - 10 years
Electronic and other equipment	3 - 10 years

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Construction in progress represents uncompleted construction work of certain facilities which, upon completion, management intends to hold for production purposes. In addition to costs under construction contracts, other costs directly related to the construction of such facilities, including duty and tariff, equipment installation and shipping costs, and borrowing costs are capitalized. Depreciation commences when the asset is placed in service.

Maintenance and repairs are charged directly to expenses as incurred, whereas betterment and renewals are capitalized in their respective accounts. When an item is retired or otherwise disposed of, the cost and applicable accumulated depreciation are removed and the resulting gain or loss is recognized for the reporting period.

Prepaid land leases, net

Prepaid land lease payments, for the land use right of four parcels of land in the PRC, three parcels of leasehold land in Malaysia and one parcel of leasehold land in Singapore, are initially stated at cost and are subsequently amortized on a straight-line basis over the lease terms of 49 to 88 years.

Intangible assets, net

Intangible assets are carried at cost less accumulated amortization and any impairment. Intangible assets acquired in a business combination are recognized initially at fair value at the date of acquisition. Intangible assets are amortized using a straight-line method.

The estimated useful lives for the intangible assets are as follows:

Category	Estimated useful life
Patents and copyrights	5 - 10 years

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Residual values are considered nil.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired. The Company assesses goodwill for impairment in accordance with ASC subtopic 350-20, *Intangibles – Goodwill and Other* (“ASC 350-20”), which requires that goodwill is not amortized but to be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events as defined by ASC 350-20.

The Company’s goodwill outstanding at June 30, 2020 was related to the acquisitions of Beijing Hollysys Industrial Software Company Ltd (“Hollysys Industrial Software”) and Shandong Lukang.

The Company has the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test in accordance with ASC 350-20. If the Company believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, the Company considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss.

The Company elected to assess goodwill for impairment using the two-step process for Concord Group for the years ended June 30, 2018 and 2019, with the assistance of a third-party appraiser. The judgment in estimating the fair value of Concord Group includes forecasts of the amount and timing of expected future cash flows, which are based on management’s best estimates of forecasted revenue, gross profit, operating expenses, future capital expenditures and working capital levels, as well as the discount rate, which is determined using the Weighted Average Cost of Capital and Capital Asset Pricing Model approach and the selection of comparable companies operating in similar businesses. The carrying amount of Concord Group exceeded its fair value as of June 30, 2019, and a goodwill impairment charge of $11,623 was recorded in the consolidated statement of comprehensive income for the year ended June 30, 2019 based on results of the second step of the goodwill impairment test (note 10).

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Due to downward revision of forecasted future profits, the Company determined it was more likely than not that an impairment existed within the Bond Group reporting unit and performed a quantitative goodwill impairment test as of June 30, 2020. The Company performed the two-step quantitative goodwill impairment test with the assistance of an independent third-party appraiser and estimated the fair value of the reporting unit using a discounted cash flow approach.

Significant management judgment and estimation are involved in forecasting the amount and timing of expected future cash flows and the underlying assumptions used in the discounted cash flow approach to determine the fair value of the Bond Group reporting unit. In particular, the fair value estimate is sensitive to significant assumptions, such as forecasted revenue growth rates, gross profit margins and discount rates, which is determined using the Weighted Average Cost of Capital and Capital Asset Pricing Model approach and the selection of comparable companies operating in similar businesses. These significant assumptions are forward looking and could be materially affected by future market or global economic conditions. As a result, the Company recorded a full impairment charge of US$35,767 attributable to its Bond Group reporting unit (note 10).

There are uncertainties surrounding the amount and timing of future expected cash flows as they may be impacted by negative events such as uncertainty of the impact of COVID-19 pandemic, a slowdown in the mechanical and electrical engineering sector, deteriorating economic conditions in the geographical areas Bond Group operates in, increasing competitive pressures and fewer than expected mechanical and electrical solution contracts awarded to Bond Group. These events can negatively impact demand for Bond Group's services and result in actual future cash flows being less than forecasted or delays in the timing of when those cash flows are expected to be realized. Further, the timing of when actual future cash flows are received could differ from the Company's estimates, which do not factor in unexpected delays in project commencement or execution.

Impairment of long-lived assets other than goodwill

The Company evaluates its long-lived assets or asset group including acquired intangibles with finite lives for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount of a group of long-lived assets may not be fully recoverable. When these events occur, the Company evaluates the impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Company recognizes an impairment loss based on the excess of the carrying amount of the asset group over its fair value, generally based upon discounted cash flows or quoted market prices.

Shipping and handling costs

All shipping and handling fees charged to customers are included in net revenue. Shipping and handling costs incurred are included in cost of integrated solutions contracts and/or costs of products sold as appropriate.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The Company adopted ASC 740, *Income Taxes* ("ASC 740"), which clarifies the accounting and disclosure for uncertainty in income taxes. Interests and penalties arising from underpayment of income taxes shall be computed in accordance with the related tax laws. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interests and penalties recognized in accordance with ASC 740 are classified in the financial statements as a component of income tax expense. In accordance with the provisions of ASC 740, the Company recognizes in its financial statements the impact of a tax position if a tax return position or future tax position is "more likely than not" to prevail based on the facts and technical merits of the position. Tax positions that meet the "more likely than not" recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Company's estimated liability for unrecognized tax positions which is included in accrued liabilities is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from the Company's estimates. As each annual filling is done, adjustments, if any, are recorded in the Company's financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require the Company to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

Research and development costs

Research and development costs consist primarily of salaries, bonuses and benefits for research and development personnel. Research and development costs also include travel expenses of research and development personnel as well as depreciation of hardware equipment and software tools and other materials used in research and development activities. Research and development costs are expensed as incurred. Software development costs are also expensed as incurred as the costs qualifying for capitalization have been insignificant for the periods presented.

VAT refunds and government subsidies

Pursuant to the laws and regulations of the PRC, the Company remits 13%-16% of its sales as valued added tax ("VAT"), and then is entitled to a refund of the portion that the Company's actual VAT burden exceeding 3% levied on all sales containing internally developed software products. VAT refunds are recognized in the consolidated statements of comprehensive income when cash refunds or the necessary approval from the tax authority has been received. Certain subsidiaries of the Company located in the PRC receive government subsidies from local PRC government agencies. Government subsidies are recognized in the consolidated statements of comprehensive income when the attached conditions have been met. Government grants received for the years ended June 30, 2018, 2019 and 2020 amounted to $5,931, $6,559 and $6,930, respectively, of which $4,784, $4,888 and $4,655 were included as a credit to operating expenses in the consolidated statements of comprehensive income for the years ended June 30, 2018, 2019 and 2020, respectively.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Appropriations to statutory reserve

Under the corporate law and relevant regulations in the PRC, all of the subsidiaries of the Company located in the PRC are required to appropriate a portion of its retained earnings to statutory reserve. All subsidiaries located in the PRC are required to appropriate 10% of its annual after-tax income each year to the statutory reserve until the statutory reserve balance reaches 50% of the registered capital. In general, the statutory reserve shall not be used for dividend distribution purposes. In Dubai and Qatar, companies are required to appropriate 10% of its annual after-tax income each year to the statutory reserve and the appropriation may be suspended by the shareholders if the reserve reaches 50% of the registered capital. The statutory reserve can be used to cover the losses of the companies or to increase the capital of the companies with a decision by the general assembly of CCDB and CECL.

Segment reporting

In accordance with ASC 280, *Segment reporting* (“ASC 280”), segment reporting is determined based on how the Company’s chief operating decision makers review operating results to make decisions about allocating resources and assessing performance of the Company. According to management’s approach, the Company organizes its internal financial reporting structure based on its main product and service offerings. The Company operates in three principal business segments in the financial reporting structure and their management report, namely industrial automation, rail transportation and mechanical and electrical solutions. The Company does not allocate any assets to the three segments as management does not use the information to measure the performance of the reportable segments.

Comprehensive income

Comprehensive income is defined as the changes in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. In accordance with ASC 220, *Comprehensive Income* (“ASC 220”), the Company presents components of net income and other comprehensive income in one continuous statement.

Investments in equity investees and equity securities

The Company accounts for its equity investments under the equity method when the Company has rights and ability to exercise significant influence over the investees. The investments in entities over which the Company has the ability to exercise significant influence are accounted for using the equity method. Significant influence is generally considered to exist when the Company has an ownership interest in the voting stock of the investee between 20% and 50%. Other factors, such as representation on the investee’s board of directors and the impact of commercial arrangements, are also considered in determining whether the equity method of accounting is appropriate.

Under the equity method, original investments are recorded at cost and adjusted by the Company’s share of undistributed earnings or losses of these entities, by the amortization of any basis difference between the amount of the Company’s investment and its share of the net assets of the investee, and by dividend distributions or subsequent investments. When dividends from an investee exceed the carrying amount of an equity method investment, the excess distribution is recognized as a gain and reported as share of net income of equity investees, net in the consolidated statements of comprehensive income when the Company is not liable for the obligations of the investee nor otherwise committed to provide financial support. In such cases, subsequent equity method earnings are not recorded until subsequent earnings equal the gain recorded. Unrealized inter-company profits and losses related to equity investees are eliminated. An impairment charge, being the difference between the carrying amount and the fair value of the equity investee, is recognized in the consolidated statements of comprehensive income when the decline in value is considered other than temporary. The Company will discontinue applying the equity method if an investment (plus additional financial support provided to the investee, if any) has been reduced to zero. When the Company has other investments in its equity-method investee and are not required to advance additional funds to that investee, the Company would continue to report its share of equity method losses in its consolidated statement of comprehensive income after its equity-method investment in ordinary shares has been reduced to zero, to the extent of and as an adjustment to the adjusted basis of its other investments in the investee. Such losses are first applied to those investments of a lower liquidation preference before being further applied to the investments of a higher liquidation preference.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The Company uses the cumulative earnings approach to classify distributions received from equity investees. Under this approach, distributions received from equity investees are presumed to be a return on the investment and are classified as cash inflows from operating activities unless the distributions received exceed cumulative equity in earnings recognized by the investor. In such case, the excess is considered a return of investment and is classified as cash inflows from investing activities.

For equity investments other than those accounted for under the equity method or those that result in consolidation of the investee, the Company measures equity investments at fair value and recognizes any changes in fair value in net income. However, for equity investments that do not have readily determinable fair values and do not qualify for the existing practical expedient in ASC 820 to estimate fair value using the net asset value per share (or its equivalent) of the investment, the Company chose to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. At each reporting date, the Company is required to make a qualitative assessment as to whether equity investments without a readily determinable fair value for which the measurement alternative is elected is impaired. In the event that a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than the carrying value, the carrying value is written down to its fair value. A variety of factors are considered when determining if a decline in fair value is below carrying value, including, among others, the financial condition and prospects of the investee.

Capitalization of interest

Interest incurred on borrowings for the Company's construction of facilities and assembly line projects during the active construction period are capitalized. The capitalization of interest ceases once a project is substantially complete. The amount to be capitalized is determined by applying the weighted-average interest rate of the Company's outstanding borrowings to the average amount of accumulated capital expenditures for assets under construction during the year and is added to the cost of the underlying assets and amortized over their respective useful lives.

Income per share

Income per share is computed in accordance with ASC 260, *Earnings Per Share* ("ASC 260"). Basic income per ordinary share is computed by dividing income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Diluted income per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Share-based compensation

The Company accounts for share-based compensation in accordance with ASC 718, *Compensation-Stock Compensation* (“ASC 718”). The Company recognizes compensation cost for an award with only service conditions that has a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. The compensation cost for each vesting tranche in an award subject to performance vesting is recognized ratably from the service inception date to the vesting date for each tranche. To the extent the required service and performance conditions are not met resulting in the forfeiture of the share-based awards, previously recognized compensation expense relating to those awards are reversed. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in a subsequent period if actual forfeitures differ from initial estimates. The Company accounts for forfeitures as they occur.

For share-based awards that are subject to performance-based vesting conditions in addition to time-based vesting, the Company recognizes the estimated grant-date fair value of performance-based awards, net of estimated forfeitures, as share-based compensation expense over the vesting period based upon the Company’s determination of whether it is probable that the performance-based criteria will be achieved. At each reporting period, the Company reassesses the probability of achieving the performance-based criteria. Determining whether the performance-based criteria will be achieved involves judgment, and the estimate of share-based compensation expense may be revised periodically based on changes in the probability of achieving the performance-based criteria. Revisions are reflected in the period in which the estimate is changed. If the performance-based criteria are not met, no share-based compensation expense is recognized, and, to the extent share-based compensation expense was previously recognized, such share-based compensation expense is reversed.

Fair value measurements

The Company has adopted ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”), which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. It does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. It establishes a three-level valuation hierarchy of valuation techniques based on observable and unobservable inputs, which may be used to measure fair value and include the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Concentration of risks

Concentration of credit risk

Assets that potentially subject the Company to significant concentration of credit risk primarily consist of cash and cash equivalents, time deposits with original maturities over three months, restricted cash, accounts receivable, costs and estimated earnings in excess of billings, accounts receivable retention, other receivables and amounts due from related parties. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet date. As of June 30, 2020, substantially all of the Company's cash and cash equivalents and time deposits with original maturities exceeding three months were managed by financial institutions located in the PRC, Singapore, Malaysia, which management believes are of high credit quality. Accounts receivable, other receivables and amounts due from related parties are typically unsecured and the risk with respect to accounts receivable is mitigated by credit evaluations the Company performs on its customers and its ongoing monitoring process of outstanding balances.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The Company has no customer that individually comprised 10% or more of the outstanding balance of accounts receivable as of June 30, 2019 and 2020, respectively.

Concentration of business and economic risk

A majority of the Company’s net revenue and net income are derived in the PRC. The Company’s operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC’s political, economic and social conditions. There is also no guarantee that the PRC government’s pursuit of economic reforms will be consistent or effective.

Concentration of currency convertibility risk

A majority of the Company’s businesses are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People’s Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People’s Bank of China. Approval of foreign currency payments by the People’s Bank of China or other regulatory institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts.

Concentration of foreign currency exchange rate risk

The Company’s exposure to foreign currency exchange rate risk primarily relates to monetary assets or liabilities held in foreign currencies. Since July 21, 2005, the RMB has been permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. On June 19, 2010, the People’s Bank of China announced the end of the RMB’s de facto peg to USD, a policy which was instituted in late 2008 in the face of the global financial crisis, to further reform the RMB exchange rate regime and to enhance the RMB’s exchange rate flexibility. The exchange rate floating bands will remain the same as previously announced in the inter-bank foreign exchange market. The US dollars against RMB depreciated by of 2.32%, depreciated by of 3.65% and depreciated by 2.93% for the years ended June 30, 2018, 2019 and 2020, respectively. Any significant revaluation of RMB may materially and adversely affect the Company’s cash flows, revenues, earnings and financial position, and the value of its shares in US dollars. An appreciation of US dollar against the RMB would result in foreign currency translation losses when translating the net assets of the Company from RMB into US dollar.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

For the years ended June 30, 2018, 2019 and 2020, the net foreign currency translation gains (losses) resulting from the translation of RMB, SGD and other functional currencies to the U.S. dollar reporting currency recorded in stockholders' equity as part of accumulated other comprehensive income was $17,406, $(31,341), and $(27,996), respectively.

Risks and Uncertainties

Since the third quarter of fiscal year 2020, a novel strain of coronavirus (COVID-19) has spread rapidly globally and the Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. The pandemic has resulted in quarantines, travel restrictions and the temporary closure of stores and business facilities globally. Given the rapidly expanding nature of COVID-19 pandemic, the Company believes there is a risk that its global business, results of operations, and financial condition will be adversely affected. Potential impact to the Company's results of operations will also depend on future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by government authorities and other entities to contain COVID-19 or mitigate its impact, almost all of which are beyond the Company's control.

During the last two quarters of fiscal year 2020, the pandemic has led to delays of project execution and contract bidding, while marketing events were also adversely affected due to restriction on on-site communication, which has negatively impacted the Company's financial performance in 2020. While there has been gradual recovery of the Company's overall business operations resulting from improving health statistics in China since March 2020, it is still not possible at this time to estimate the full impact of the pandemic on the Company, especially as it relates to its overseas business due to the continued spread of COVID-19 in south east Asia and south Asia. The Company also faces risks that customers may delay their settlement with the Company or delay or fail to pay us as scheduled due to the impact of COVID-19. In addition, the pandemic is also one of the triggers for evaluating whether there is goodwill impairment of Bond Group and long-lived asset impairments. The measures taken by the governments of countries affected could disrupt the Company's demand from its customers, sales efforts, the delivery of its products and services, reduce our customers' ability to pay and adversely impact the Company's business, financial condition and results, or results of operations. Because of the uncertainty surrounding the COVID-19 outbreak, the full severity of the business disruption and the related financial impact cannot be reasonably estimated at this time.

Recent accounting pronouncements

<u>*Recently Adopted Standards*</u>

On July 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-02 ("ASU 2016-02"), *Leases* (*Topic 842*), using the modified retrospective transition method and elected the transition option to use an effective date of July 1, 2019 as the date of initial application. As a result, the comparative periods were not restated.

The Company has elected the package of practical expedients permitted which allows the Company not to reassess the following at adoption date: (i) whether any expired or existing contracts are or contains a lease, (ii) the lease classification for any expired or existing leases, and (iii) initial direct costs for any expired or existing leases (i.e. whether those costs qualify for capitalization under ASU 2016-02). The Company also elected the short-term lease exemption for certain classes of underlying assets including office space and warehouses, with a lease term of 12 months or less.

Prior to the adoption of ASU 2016-02, the Company's accounting policies for leases was as follows:

Leases

Leases have been classified as either capital or operating leases. Leases that transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Accounting for lessor

Minimum contractual rental from leases are recognized on a straight-line basis over the non-cancelable term of the lease. With respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue commences when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Contingent rental revenue is accrued when the contingency is removed.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The Company's accounting policy effective on the adoption date of ASU 2016-02 is as follows:

Operating lease as lessee

The Company determines if an arrangement is a lease at inception. The Company classifies a lease as a finance lease or an operating lease at lease commencement date as appropriate under ASC 842. The Company has operating leases for certain offices and warehouses and does not have any finance leases for the fiscal years ended June 30, 2019 and 2020.

For operating leases, the Company records a lease liability and corresponding right-of-use (ROU) asset at lease commencement. Lease terms are based on the non-cancellable term of the lease and may contain options to extend the lease when it is reasonably certain that the Company will exercise the option. Lease liabilities represent the present value of the lease payments not yet paid, discounted using the discount rate for the lease at lease commencement.

The Company estimates its incremental borrowing rate for its leases at the commencement date to determine the present value of future lease payments when the implicit rate is not readily determinable in the lease. In estimating its incremental borrowing rate, the Company considers its credit rating and publicly available data of borrowing rates for loans of similar amount, currency and term as the lease.

Operating leases are presented as operating lease ROU assets and operating lease liabilities on the consolidated balance sheet. Prepaid land leases are separately classified on the consolidated balance sheets. Lease liabilities that become due within one year of the balance sheet date are classified as current liabilities. Operating lease ROU asset represents the right to use an underlying asset for the lease term and are recognized in an amount equal to the lease liability adjusted for any lease payments made prior to commencement date, less any lease incentives received and any initial direct costs incurred by the Company.

After lease commencement, operating lease liabilities are measured at the present value of the remaining lease payments using the discount rate determined at lease commencement. Operating lease ROU assets are measured at the amount of the lease liabilities and further adjusted for prepaid or accrued lease payments, the remaining balance of any lease incentives received, unamortized initial direct costs and impairment of the ROU assets, if any. Operating lease expense is recognized as a single cost on a straight-line basis over the lease term.

The cumulative effect of the changes made to the Company's consolidated balance sheet as of July 1, 2019 for the adoption of ASU 2016-02 is as follows:

	Balance as of June 30, 2019	Adjustments due to the adoption of ASU 2016-02	Balance as of July 1, 2019
Assets:			
Prepaid expenses	644	(347)	297
Operating lease ROU assets	—	6,924	6,924
Prepaid land leases	16,599	—	16,599
Liabilities:			
Operating lease liabilities (current)	—	(2,402)	(2,402)
Operating lease liabilities (non-current)	—	(4,175)	(4,175)

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The impact of adopting ASU 2016-02 on the Company's audited consolidated balance sheet as of June 30, 2020 are as follows:

	As reported	Legacy GAAP	Effect of the adoption of ASU 2016-02 Higher/ (lower)
Assets:			
Prepaid expenses	654	873	(219)
Operating lease ROU assets	6,010	—	6,010
Prepaid land leases	15,742	15,742	—
Liabilities:			
Operating lease liabilities (current)	(2,489)	—	(2,489)
Operating lease liabilities (non-current)	(3,302)	—	(3,302)

The impact of adopting ASU 2016-02 on the Company's opening retained earnings and current period net income and cash flows was insignificant.

Operating lease as lessor

The Company classifies a lease as an operating, sales-type or direct financing lease at lease commencement date as appropriate under ASC 842. For operating leases, the Company recognized rental income over the non-cancellable lease term on a straight-line basis. The Company does not have any sales-type or direct financing leases for the fiscal years ended June 30, 2018, 2019 and 2020.

Standards Effective in Future Years

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. The guidance requires to present assets held at amortized cost and available for sale debt securities net of the amount expected to be collected. The guidance requires the measurement of expected credit losses to be based on relevant information from past events, including historical experiences, current conditions and reasonable and supportable forecasts that affect collectability. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2019 and early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Different components of the guidance require modified retrospective or prospective adoption. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which clarifies that receivables arising from operating leases should be accounted for in accordance with ASC 842, *Leases* ("ASC 842") instead of ASC Subtopic 326-20. Based on financial instruments currently held by the Company, the adoption of ASU 2016-13 will primarily impact accounts receivable, costs and estimated earnings in excess of billings, accounts receivable retention, amount due from related parties and other receivables. As part of the implementation of ASU 2016-13, the Company is performing an assessment, including identifying financial assets within the scope of ASU 2016-13, choosing the method to estimate credit losses for its financial assets, summarizing historical credit losses and considering available information relevant to assessing the collectability of cash flows. The Company expects to recognize credit losses earlier and in higher amounts for its accounts receivables, costs and estimated earnings in excess of billing and accounts receivable retention after adopting ASU 2016-13.

The Company is still in the process of evaluating the quantitative impact of adopting this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 ("ASU 2017-04"), *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. This standard is effective for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating this guidance and the impact on its consolidated financial statements.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

In August 2018, the FASB issued ASU No. 2018-13*, Fair Value Measurement (Topic 820), Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. The guidance modifies and enhances the disclosure requirements for fair value measurements. This update is effective in fiscal years, including interim periods, beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating this guidance and the impact on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "*Simplifying the Accounting for Income Taxes,"* as part of its Simplification Initiative to reduce the cost and complexity in accounting for income taxes. This standard removes certain exceptions related to the approach for intra period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. It also amends other aspects of the guidance to help simplify and promote consistent application of GAAP. The guidance is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating this guidance and the impact on its consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, *Investments—Equity Securities (Topic 321)*, *Investments—Equity Method and Joint Ventures* (Topic 323), and *Derivatives and Hedging (Topic 815)*. The amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendments also clarify that for the purpose of applying paragraph 815-10-15-141(a) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options. The amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The Company is currently evaluating the amendments and the impact on their consolidated financial statements.

NOTE 3 - INVENTORIES

Components of inventories are as follows:

	June 30,	
	2019	**2020**
Raw materials	$ 17,150	$ 18,307
Work in progress	15,097	17,561
Finished goods	10,736	12,342
	$ 42,983	$ 48,210

NOTE 4 - ACCOUNTS RECEIVABLE

	June 30,	
	2019	**2020**
Notes receivable	$ 36,095	$ 27,059
Accounts receivable	293,661	257,008
Allowance for doubtful accounts	(47,162)	(41,618)
	$ 282,594	$ 242,449

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The movements in allowance for doubtful accounts are as follows:

	June 30,		
	2018	2019	2020
Balance at the beginning of year	$ 48,089	$ 49,094	$ 47,162
Additions	3,407	4,318	178
Deconsolidation of a subsidiary	—	(2,733)	—
Written off	(3,527)	(1,959)	(4,399)
Translation adjustment	1,125	(1,558)	(1,323)
Balance at the end of year	$ 49,094	$ 47,162	$ 41,618

NOTE 5 - COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS

	June 30,	
	2019	2020
Contract costs incurred plus estimated earnings	$ 1,120,282	$ 1,046,803
Less: Progress billings	(915,346)	(853,774)
Cost and estimated earnings in excess of billings	204,936	193,029
Less: Allowance for doubtful accounts	(6,981)	(6,150)
	$ 197,955	$ 186,879

The movements in allowance for doubtful accounts are as follows:

	June 30,		
	2018	2019	2020
Balance at the beginning of year	$ 8,660	$ 9,929	$ 6,981
Additions (reversals)	1,038	(2,149)	(651)
Deconsolidation of a subsidiary	—	(465)	—
Translation adjustments	231	(334)	(180)
Balance at the end of the year	$ 9,929	$ 6,981	$ 6,150

NOTE 6 - REVENUE FROM CONTRACTS WITH CUSTOMERS

Remaining Unsatisfied Performance Obligations ("RUPO")

As of June 30, 2020, the Company's backlog relating to unsatisfied (or partially unsatisfied) performance obligations in contracts with its customers was $571.8 million. The Company expects to recognize the majority of its remaining performance obligations as revenue within the next three years.

Disaggregation of revenues

The Company assesses revenues based upon the nature or type of goods or services it provides and the geographic location of the related businesses. The geographic locations are consistent with the reportable segments. For more information on the reportable segments, see Note 24, “Segment Reporting”. The following table present disaggregated revenue information:

	Year ended June 30, 2020		
	PRC	Non-PRC	Total
Integrated solutions contracts revenue	$ 369,162	45,110	414,272
Product sales	18,956	1,188	20,144
Maintenance service revenue	50,317	15,724	66,041
Extended warranty service revenue	2,870	—	2,870
Total	$ 441,305	62,022	503,327

Contract assets and contract liabilities

Contract assets include amounts that represent the rights to receive payment for goods or services that have been transferred to the customer, with the rights conditional upon something other than the passage of time. Accordingly, the Company include the following in the contract assets: (i) unbilled amounts resulting from revenue recognized exceeding amounts billed to customers for integrated solutions contracts and maintenance service contracts using the cost-to-cost method, which are included in the consolidated balance sheets as costs and estimated earnings in excess of billing; and (ii) accounts receivable retention amounts which were held by customers from Concord and Bond Groups upon the issuance of the final completion certificate and completion of the defects liability period.

Contract liabilities include the amounts that reflect obligations to provide goods or services for which payment has been received. Contract liabilities are presented in the consolidated balance sheets as deferred revenue.

These contract assets and liabilities are calculated on a contract-by-contract basis and reported on a net basis at the end of reporting period. The Company recognized revenue of $88,676 for the year ended June 30, 2020, which was previously deferred and included in the contract liability at the beginning of the year. This revenue was driven primarily by performance obligations satisfied.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Contract assets and contract liabilities are summarized below:

	June 30, 2019	June 30, 2020
Contract assets, current	$ 214,289	194,511
Contract assets, non-current	6,390	7,026
Contract liabilities	141,385	139,242

The decrease in contract assets was primarily due to timing of revenue recognized relative to its billings. The decrease in contract liabilities was primarily due to the timing of contractual milestones. No other factors materially impacted the change in the contract liabilities balance.

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment is as follows:

	June 30,	
	2019	2020
Buildings	$ 71,091	$ 67,520
Machinery	12,787	12,941
Software	13,683	14,222
Vehicles	4,912	4,675
Electronic and other equipment	33,913	36,647
Construction in progress	504	8,553
	$ 136,890	$ 144,558
Less: Accumulated depreciation and impairment	(60,884)	(66,508)
	$ 76,006	$ 78,050

Buildings with a total carrying value of $939 and nil were pledged to secure short-term bank loans (note 13) as of June 30, 2019 and 2020, respectively.

Buildings with a total carrying value of $3,018 and $2,854 were pledged to secure lines of credits from various banks in Singapore and Malaysia as of June 30, 2019 and 2020, respectively (note 13).

Buildings and vehicles with a total carrying value of $1,467 and $1,178 were pledged to secure long-term bank loans as of June 30, 2019 and 2020, respectively (note 14).

Construction in progress consists of capital expenditures and capitalized interest charges related to the construction of facilities and assembly line projects and the expenditures related to the Company's information system constructions.

The depreciation expenses for the years ended June 30, 2018, 2019 and 2020 were $8,217, $7,879 and $8,483, respectively.

Assets leased to others under operating leases

The Company has entered into operating lease contracts related to certain buildings owned with carrying amounts as shown below:

	June 30,	
	2019	2020
Buildings leased to others - at original cost	$ 22,096	$ 21,467
Less: Accumulated depreciation	(6,249)	(6,605)
Buildings leased to others - net	$ 15,847	$ 14,862

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

NOTE 8 - PREPAID LAND LEASES

A summary of prepaid land leases is as follows:

	June 30,	
	2019	2020
Prepaid land leases	$ 19,232	$ 18,681
Less: Accumulated amortization	(2,633)	(2,939)
	$ 16,599	$ 15,742

The amortization for the years ended June 30, 2018, 2019 and 2020 were $270, $264 and $384, respectively.

The annual amortization of prepaid land leases for each of the five succeeding years is as follows:

Year ending June 30,	
2021	$ 389
2022	389
2023	389
2024	389
2025	389

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

NOTE 9 - INTANGIBLE ASSETS, NET

	June 30,					
	2019			2020		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Patents and copyrights	$ 1,998	(615)	1,383	$ 2,620	(907)	1,713

The amortization expenses for the years ended June 30, 2018, 2019 and 2020 were $801, $311 and $300, respectively.

The annual amortization expense relating to the existing intangible assets for the five succeeding years is as follow:

Year ending June 30,	
2021	$ 437
2022	437
2023	437
2024	287
2025	125

NOTE 10 - GOODWILL

The changes in the carrying amount of goodwill are as follows:

	Operating segment		
	Mechanical and electrical solutions	Industrial automation	Total
Balance as of July 1, 2019	$ 36,468	586	$ 37,054
Goodwill upon acquisition	—	958	958
Goodwill impairment charge	(35,767)	—	(35,767)
Translation adjustment	(701)	(84)	(785)
Balance as of June 30, 2020	$ —	1,460	$ 1,460

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Bond Group, as a component of the mechanical and electrical solutions operating segment, is considered to be a reporting unit for goodwill impairment purposes as Bond Group constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of Bond Group. The amount of goodwill allocated to Bond Group was $35,767 as of June 30, 2020, before any impairment charges. The Company performed the two-step quantitative goodwill impairment test with the assistance of an independent third-party appraiser and estimated the fair value of the reporting unit using a discounted cash flow approach. As a result, the Company recorded a full impairment charge of US$35,767 attributable to the Bond Group reporting unit due to downward revision of forecasted future profits.

Management's judgment and estimation is involved in forecasting the amount and timing of expected future cash flows and the underlying assumptions used in the discounted cash flow approach to determine the fair value of the Bond Group reporting unit. In particular, the fair value estimate was sensitive to significant assumptions, such as forecasted revenue growth rates, gross profit margins and discount rates. These significant assumptions are forward looking and could be materially affected by future market or global economic conditions.

The Company also performed qualitative assessments with respect to Hollysys Industrial Software and Shandong Lukang, to determine if it is more likely than not that the fair values of Hollysys Industrial Software and Shandong Lukang are less than their carrying amounts. By identifying the most relevant drivers of fair value and significant events, and weighing the identified factors, the Company concluded that it was not more-likely-than-not that the fair value of these reporting units would be less than their carrying amounts as of June 30, 2020. Therefore, no further impairment testing for Hollysys Industrial Software and Shandong Lukang was required.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

NOTE 11 - EQUITY INVESTMENTS

Investments in equity investees

The following long-term investments were accounted for under the equity method as of June 30, 2019 and 2020 as indicated:

June 30, 2019	Interest held	Long-term investment, at cost, less impairment	Share of undistributed profits	Advance to investee company	Total
Equity method					
Beijing Hollycon Medicine & Technology Co., Ltd.	30.00%	$ 22,456	2,491	—	24,947
Beijing Hollysys Electric Motor Co., Ltd.	40.00%	771	5,054	—	5,825
Beijing IPE Biotechnology Co., Ltd.	22.02%	1,436	1,778	—	3,214
China Techenergy Co., Ltd.	40.00%	—	2,989	—	2,989
Ningbo Hollysys Intelligent Technologies Co., Ltd.	40.00%	4,110	(2,118)	—	1,992
Hunan LingXiang Maglev Technology Co., Ltd.	20.00%	1,456	(268)	—	1,188
Beijing AIRmaker Technology Co., Ltd.	20.00%	146	(23)	—	123
Southcon Development Sdn Bhd.	30.00%	217	(109)	—	108
Beijing Hollysys Machine Automation Co., Ltd.	30.00%	437	(437)	—	—
Beijing Jing Yi Intelligent Technologies Innovation Center Co., Ltd.	46.00%	—	—	—	—
		$ 31,029	9,357	—	40,386

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

June 30, 2020	Interest held	Long-term investment, at cost, less impairment	Share of undistributed profits	Disposal	Advance to investee company	Total
Equity method						
Beijing Hollycon Medicine & Technology Co., Ltd.	30.00%	$ 21,816	4,069	—	—	25,885
Beijing Hollysys Electric Motor Co., Ltd.	40.00%	749	5,263	—	—	6,012
Beijing IPE Biotechnology Co., Ltd.	22.02%	1,395	—	(1,395)	—	—
China Techenergy Co., Ltd.	40.00%	—	7,919	—	—	7,919
Ningbo Hollysys Intelligent Technologies Co., Ltd.	40.00%	3,993	(3,993)	—		—
Hunan LingXiang Maglev Technology Co., Ltd.	19.00%	1,415	(330)	—	—	1,085
Beijing AIRmaker Technology Co., Ltd.	20.00%	141	(15)	—	—	126
Southcon Development Sdn Bhd.	30.00%	211	(105)	—	—	106
Beijing Hollysys Machine Automation Co., Ltd.	30.00%	424	(424)	—	—	—
Beijing Jing Yi Intelligent Technologies Innovation Center Co., Ltd.	46.00%	—	—	—	—	—
		$ 30,144	12,384	(1,395)	—	41,133

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Disposal of Beijing IPE Biotechnology Co., Ltd. ("Beijing IPE")

In May 2019, the Company entered into an agreement to dispose all of its 22.02% interest in Beijing IPE for cash considerations of $9,087. The disposal transaction was completed in September 2019, and a disposal gain of $5,763 was recognized under the caption gains on disposal of an investment in an equity investee in the consolidated statements of comprehensive income for the year ended June 30, 2020.

Deconsolidation of Beijing Hollysys Intelligent Technologies Co., Ltd. ("Hollysys Intelligent") and equity investment in Ningbo Hollysys Intelligent Technologies Co Ltd. ("Ningbo Hollysys")

In June 2018, Ningbo Hollysys was established with a registered capital of RMB250,000 (equivalent to $38,060) and no capital contributions were made.

In August 2018, the Company agreed to transfer 100% of their equity interest in Hollysys Intelligent, a wholly owned subsidiary, to Ningbo Hollysys in exchange for a 40% equity interest in Ningbo Hollysys. Upon the transfer of the equity interest, the Company lost control of Hollysys Intelligent and deconsolidated the subsidiary. The Company with the assistance of an independent third-party appraiser, determined the fair value of the consideration received and the retained equity interest in Hollysys Intelligent through its 40% equity interest in Ningbo Hollysys to be $4,110, which was measured using a discounted cash flow approach which involves significant unobservable inputs (Level 3), such as the amount and timing of future expected cash flows, terminal growth rate and discount rate. A disposal gain of $5,768 was recorded in the consolidated statement of comprehensive income for the year ended June 30, 2019. As the Company has the right to appoint two representatives of Ningbo Hollysys' five-member board of directors, the Company has significant influence and uses the equity method to account for its investment in Ningbo Hollysys.

Hollysys Intelligent held a 25% equity interest in Beijing Hollysys Digital Technology Co., Ltd. ("Hollysys Digital") and a 60% equity interest in Shenzhen Hollysys Intelligent Technologies Co., Ltd. ("Shenzhen Hollysys") as of June 30, 2018. As discussed above, the Company lost control of Hollysys Intelligent in August 2018, therefore, the related interests in Hollysys Digital and Shenzhen Hollysys were also disposed.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Investments in equity securities without readily determinable fair values

Investments in equity securities without readily determinable fair value were accounted for as cost method investments prior to adopting ASC 321. As of June 30, 2019 and 2020, the carrying amounts of investments in equity securities without readily determinable fair values for which the measurement alternative was elected were $4,776 and $4,640, respectively, after deductions of $437 and $424 of accumulated impairment. There were no unrealized gains (upward adjustments), unrealized losses (downward adjustments and impairment) or net unrealized gains or losses recognized for such equity securities during the years ended June 30, 2019 and 2020. Net realized gains or loss on equity securities sold were nil and nil for the years ended June 30, 2019 and 2020, respectively.

NOTE 12 - WARRANTY LIABILITIES

	June 30,	
	2019	2020
Beginning balance	$ 7,858	$ 12,116
Deconsolidation of a subsidiary	(130)	—
Expense accrued	7,538	2,309
Expense incurred	(2,899)	(4,027)
Translation adjustment	(251)	(334)
	$ 12,116	$ 10,064
Less: Current portion of warranty liabilities	(8,039)	(6,604)
Long-term warranty liabilities	$ 4,077	$ 3,460

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

NOTE 13 - SHORT-TERM BANK LOANS

On June 30, 2019, the Company's short-term bank borrowings consisted of revolving bank loans of $1,909 from several banks, which were subject to an annual interest rate of 4.60%. Some of the short-term loans are secured by the pledge of restricted cash of $1,013 and a building with a carrying value of $939 as of June 30, 2019, respectively.

On June 30, 2020, the Company had no outstanding short-term bank borrowings.

For the years ended June 30, 2018, 2019, and 2020, interest expenses on short-term bank loans amounted to $376, $110 and $37, respectively.

As of June 30, 2019, the Company had available lines of credit from various banks in the PRC, Singapore and Malaysia amounting to $265,560, of which $77,911 was utilized and $187,649 was available for use. These lines of credit were secured by the pledge of restricted cash and buildings with a carrying value of $13,401 and $3,018, respectively.

As of June 30, 2020, the Company had available lines of credit from various banks in the PRC, Singapore and Malaysia amounting to $299,277, of which $47,694 was utilized and $251,583 was available for use. These lines of credit were secured by the pledge of restricted cash and buildings with a carrying value of $9,627 and $2,977, respectively.

NOTE 14 - LONG-TERM LOANS

		June 30,	
		2019	**2020**
MYR denominated loans	(i)	947	842
SGD denominated loans	(ii)	346	258
Convertible Bond	(iii)	19,995	—
USD denominated loan	(iv)	—	15,000
		$ 21,288	$ 16,100
Less: Current portion		(20,310)	(320)
		$ 978	$ 15,780

i. The MYR denominated loans are repayable in 3 to 75 installments with the last installment due in December 2041. For the years ended June 30, 2019 and 2020, the effective interest rates ranged from 2.19% to 5.12% per annum and 2.19% to 7.51% per annum, respectively. The borrowings are secured by the mortgages of buildings and vehicles in Malaysia, with an aggregate carrying value of $1,040 and $873 as of June 30, 2019 and 2020, respectively.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

ii. The SGD denominated loans are repayable in 10 to 31 installments with the last installment due on March 4, 2024. For the years ended June 30, 2019 and 2020, the effective interest rates ranged from 2.44% to 2.78% per annum and 2.44% to 2.78% per annum, respectively. The borrowing is secured by vehicles with a total carrying value of $427 and $305 as of June 30, 2019 and 2020, respectively.

iii. Convertible Bond

On May 30, 2014, the Company entered into a Convertible Bond agreement with International Finance Corporation (“IFC”), under which the Company borrowed $20,000 from IFC (the “Convertible Bond”) with an interest rate of 2.1% per annum and commitment fee of 0.5% per annum paid in arrears semi-annually. The Convertible Bond which had a five year term was drawn down on August 30, 2014 and was repaid in full on August 29, 2019.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Conversion

The Convertible Bond has both voluntary and mandatory conversion terms. IFC may at its option convert, in $1,000 increments, the Convertible Bond in whole or in part, into the Company's ordinary shares at any time on or prior to the maturity date at a conversion rate and a conversion price in effect at such time. The conversion rate is subject to anti-dilution. According to the Convertible Bond agreement, 50% of the principal amount of the Convertible Bond then outstanding will be mandatorily converted into ordinary shares of the Company at the conversion rate and conversion price then in effect if at any time, with respect to the period of 30 consecutive trading days ending at such time, the volume weighted average prices for 20 trading days or more in such 30 consecutive trading day period is equal to or more than 150% of the conversion price in effect at such time. In addition, 100% of the principal amount of the Convertible Bond then outstanding will be mandatorily converted into ordinary shares at the conversion rate and conversion price then in effect if at any time, with respect to the period of 30 consecutive trading days ending at such time, the volume weighted average prices for 20 trading days or more in such 30 consecutive trading day period is equal to or more than 200% of the conversion price in effect at such time.

Non-conversion compensation feature

In the event that there remains any outstanding principal of the Convertible Bond not converted by IFC into ordinary shares at the maturity date, the Company shall pay to IFC an additional amount equal to 4% of such outstanding principle ("non-conversion compensation feature"). The non-conversion compensation feature is bifurcated as a derivative liability and measured at its fair value at each reporting period end.

In accounting for the issuance of the Convertible Bond, the Company bifurcated the non-conversion compensation feature from the Convertible Bond in accordance with ASC 815-15-30-2. The bifurcated feature is accounted for as a liability at its fair value at each reporting period end. The Company did not bifurcate the conversion option, as it is considered indexed to the entity's own stock and meets the equity classification guidance in ASC 815-40-25, it is eligible for a scope exception from ASC 815 and does not need to be bifurcated from the underlying debt host instrument. At the commitment date, there was no beneficial conversion as the conversion price was higher than the stock price. The fees and expenses associated with the issuance of the Convertible Bond are recorded as a discount to the debt liability in accordance with ASU 2015-03, which the Company has early adopted in fiscal year ended June 30, 2015. The Convertible Bond, which is the proceeds net of fees and expenses payable to the creditor and the fair value of the bifurcated derivative, will be accreted to the redemption value on the maturity date using the effective interest method over the estimated life of the debt instrument. The registration right liability is accounted for in accordance with ASC 450-20 which defines that a liability should be recorded in connection with the registration rights agreement when it becomes probable that a payment under the registration rights agreement would be required and the amount of payment can be reasonably estimated.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

For the years ended June 30, 2018, 2019 and 2020, the accretion of the Convertible Bond was $230, $230 and $57, respectively.

iv. The USD denominated loan was drawn on April 24, 2020 and repayable on April 22, 2022. For the year ended June 30, 2020, the effective interest rate was 3.02% per annum.

Scheduled principal and interest payments for all outstanding long-term loans as of June 30, 2020 are as follows:

Year ending June 30,	
2021	$ 812
2022	15,748
2023	290
2024	205
2025 and onwards	259
	$17,314

For the years ended June 30, 2018, 2019, and 2020, interest expenses of long-term loans incurred amounted to $316, $465 and $269, respectively, and nil was capitalized as construction in progress for either of these three years.

NOTE 15 - FAIR VALUE MEASUREMENTS

Financial instruments include cash and cash equivalents, time deposits with maturities over three months, accounts receivable, accounts receivable retention, other receivables, amounts due to or from related parties, accounts payable, short-term bank loans, long-term bank loans and bifurcated derivative. The carrying values of these financial instruments, other than long-term bank loans and a bifurcated derivative (which is a recurring fair value measurement), approximate their fair values due to their short-term maturities. The carrying value of the Company’s long-term bank loans other than the Convertible Bond approximates its fair value as the long-term bank loans are subject to floating interest rates. The carrying value of the Company’s long-term bank loans which are subject to fixed interest rates other than the Convertible Bond approximates its fair value as the market interest rate has not significantly changed from the borrowing date to June 30, 2020. These assets and liabilities, excluding cash (which fall into level 1 of the fair value hierarchy), fall into level 2 of the fair value hierarchy. The carrying value of the Convertible Bond is $19,995 and nil as of June 30, 2019 and 2020, respectively. The fair value measurement of the Convertible Bond falls into level 3 of the fair value hierarchy. There were no assets measured at fair value on a recurring basis as of June 30, 2019 and 2020.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Liabilities measured at fair value on a recurring basis as of June 30, 2019 is stated below:

	June 30, 2019			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Liabilities:				
Derivative financial liability (i)	$ —	$ —	$ 758	$ 758
Total liabilities measured at fair value on a recurring basis	$ —	$ —	$ 758	$ 758

(i) The derivative financial liability represents the fair value of the non-conversion compensation feature (note 14). The Company engaged an independent third-party appraiser to assist with the valuation of the feature. The Company is ultimately responsible for the fair value of the non-conversion compensation feature recorded in the consolidated financial statements. The Company adopted the binomial model to assess the fair value of such feature as of year-end. The non-conversion compensation feature is equal to the difference between the fair value of the whole Convertible Bond with the non-conversion compensation feature and the whole Convertible Bond without the non-conversion feature. The significant unobservable inputs used in the fair value measurement of the non-conversion compensation feature includes the risk-free rate of return, expected volatility, expected life of the Convertible Bond and expected ordinary dividend yield. The changes in fair value of the non-conversion compensation feature during fiscal year 2020 are shown in the following table.

	Fair value measurements as of June 30, 2020 using significant unobservable inputs (Level 3)
	Non-conversion compensation feature related to the Convertible Bond
Balance as at June 30, 2019	$ 758
Settlement	(758)
Balance as of June 30, 2020	$ —

Assets measured at fair value on a nonrecurring basis as of June 30, 2019 and 2020 are stated below:

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

	June 30, 2019			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Retained equity interest in a former subsidiary (Hollysys Intelligent) (i)	—	—	4,110	4,110
Goodwill related to Concord reporting unit(ii)	—	—	—	—
Total assets measured at fair value on a non-recurring basis	$ —	$ —	$ 4,110	$ 4,110

(i) The retained equity interest in Hollysys Intelligent was measured at fair value using the discounted cash flow method which involves significant unobservable inputs such as terminal growth rate and discount rate (note 11).

(ii) As of June 30, 2019, the Company's goodwill of nil was related to the acquisition of Concord Group. The Company engaged an independent third-party appraiser to assist with the valuation of the goodwill related to the Concord Group. The Company is ultimately responsible for the fair value of the goodwill recorded in the consolidated financial statements. For the purposes of step one of the goodwill impairment test, the Company adopted the income approach, in particular the discounted cash flow approach, to evaluate the fair value of the reporting unit. In applying the discounted cash flow approach, key assumptions include the amount and timing of future expected cash flows, terminal value growth rates and appropriate discount rates. For the purpose of step two of the goodwill impairment test, the Company has allocated the fair value of the reporting unit derived in step one to the assets and liabilities of the reporting unit, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The Company adopted the multi-period excess earnings model to evaluate the fair value of the intangible assets of the reporting unit, which was then used to compute the implied fair value of the goodwill via a residual approach which was determined to be nil. As a result, the Company recorded a goodwill impairment charge of $11,623.

	June 30, 2020			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Goodwill related to Bond reporting unit (i)	—	—	—	—
Total assets measured at fair value on a non-recurring basis	$ —	$ —	$ —	$ —

(i) As of June 30, 2020, the Company recorded a goodwill impairment charge of $35,767 and the goodwill related to the Bond Group reporting unit was impaired to nil. The Company performed the two-step quantitative goodwill impairment test with the assistance of an independent third-party appraiser and estimated the fair value of the reporting unit using a discounted cash flow approach. The Company is ultimately responsible for the fair value of the goodwill recorded in the consolidated financial statements.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

For the purposes of step one of the goodwill impairment test, the Company used an income approach, in particular the discounted cash flow approach, to evaluate the fair value of the reporting unit. Significant management judgement is required to forecast the amount and timing of expected future cash flows and the underlying assumptions used in the discounted cash flow approach, including forecasted revenue growth rates, gross profit margins and discount rates. For the purpose of step two of the goodwill impairment test, the Company has allocated the fair value of the reporting unit derived in step one to the assets and liabilities of the reporting unit, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The Company adopted the multi-period excess earnings model to evaluate the fair value of the intangible assets of the reporting unit, which was then used to compute the implied fair value of the goodwill via a residual approach.

NOTE 16 - STOCKHOLDERS' EQUITY

In August 2010, the Board of Directors adopted the 2010 Rights Plan. The 2010 Rights Plan provides for a dividend distribution of one preferred share purchase (the "Right"), for each outstanding ordinary share. Each Right entitles the shareholder to buy one share of the Class A Preferred Stock at an exercise price of $160. The Right will become exercisable if a person or group announces an acquisition of 20% or more of the outstanding ordinary shares of the Company, or announces commencement of a tender offer for 20% or more of the ordinary shares. In that event, the Right permits shareholders, other than the acquiring person, to purchase the Company's ordinary shares having a market value of twice the exercise price of the Right, in lieu of the Class A Preferred Stock. In addition, in the event of certain business combinations, the Right permits the purchase of the ordinary shares of an acquiring person at a 50% discount. Right held by the acquiring person become null and void in each case. Unless terminated earlier by the Board of Directors, the 2010 Rights Plan will expire on September 27, 2020. There is no accounting impact related to the Right.

In September 2020, the Company amended and restated the Rights Plan to, among other things, extend its term until September 27, 2030. Pursuant to the amended and restated Rights Plan, subject to limited exceptions, upon (i) a person or group obtaining ownership of 15% or more of the aggregate total of the ordinary shares of the Company then issued and outstanding or (ii) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the aggregate total of the ordinary shares of the Company then issued and outstanding, in each case, without the approval of the Board of Directors, each Right will entitle the holders, other than the acquiring person or group, to buy, at a purchase price of $160, one share of the Class A Preferred Shares of the Company, or, in lieu of a Class A Preferred Share, ordinary shares having a market value at that time of twice the Right's exercise price. The Board of Directors is entitled to redeem the Rights at $0.001 per Right at any time before the Rights are exercisable.

On September 27, 2018, the Company declared a regular cash dividend of $0.18 per share to the holders of the Company's ordinary shares. The record date was October 22, 2018, and the dividend was paid on November 12, 2018.

On September 27, 2019, the Company declared a regular annual cash dividend of $0.21 per share to the holders of the Company's ordinary shares. The record date was October 22, 2019, and the dividend was paid on November 12, 2019.

NOTE 17 - SHARE-BASED COMPENSATION EXPENSES

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

On May 14, 2015, the Board of Directors approved the 2015 Equity Incentive Plan (the "2015 Equity Plan"). The 2015 Equity Plan provided for 5,000,000 ordinary shares, and it will terminate ten years following the date that it was adopted by the Board of Directors. The purpose of the 2015 Equity Plan is used to promote the long-term growth and profitability of the Company and its affiliates by stimulating the efforts of employees, directors and consultants of the Company and its affiliates who are selected to be participants, aligning the long-term interests of participants with those of shareholders, heightening the desire of participants to continue in working toward and contributing to the success of the Company, attracting and retaining the best available personnel for positions of substantial responsibility, and generally providing additional incentive for them to promote the success of the Company's business through the grant of awards of or pertaining to the Company's ordinary shares. The 2015 Equity Plan permits the grant of incentive share options, non-statutory share options, restricted shares, restricted share units, share appreciation rights, performance units and performance shares as the Company may determine.

Performance options

Performance options granted in 2015 ("2015 Performance Options")

On May 14, 2015, certain employees of the Company were granted share-based compensation awards totaling 1,740,000 performance share options to purchase ordinary shares according to the terms of the 2015 Equity Plan. The exercise price of these options is $22.25 per share. The exercise price of the option will be adjusted in the event dividends are paid by the Company.

On the 24, 36, 48 month anniversary of the grant date, 30%, 30%, 40% of 1,160,000 performance share options will vest if the Company's annual growth rate of Non-GAAP diluted EPS for fiscal years 2015, 2016 and 2017 equals or exceeds 15% per annum. On the 48 month anniversary of the grant date, 50% of the remaining 580,000 options will vest if the Company's CAGR of Non-GAAP diluted EPS for fiscal years 2015 to 2017 equals or exceeds 20%, and another 50% of the 580,000 performance options will vest if the Company's CAGR of Non-GAAP diluted EPS for fiscal years 2015 to 2017 equals or exceeds 25%.

Moreover, for option grantees who are responsible for individual businesses, they have to meet the following additional criteria in each year, from fiscal years 2015 to 2017, to exercise the options in that particular year. The annual revenue growth rate compared to the prior fiscal year must equal to or exceed 15%, 5%, 15% and 50% respectively for industrial automation ("IA"), rail transportation ("Rail"), mechanical and electrical solutions ("M&E") and medical ("Medical") revenue streams.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The vesting schedule for such performance share options is as below:

EPS Threshold	Number of vested options	Months after the grant date		
		24 months	36 months	48 months
Annual growth rate over 15% but below 20%	1,160,000	348,000	348,000	464,000
CAGR equals or over 20% but below 25%	Additional 290,000	—	—	290,000
CAGR equals 25% or above	Additional 290,000	—	—	290,000
	Total	348,000	348,000	1,044,000

A summary of the 2015 performance option activity for the year ended June 30, 2020 is as shown below:

2015 Performance Options	Number of shares	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding, vested and exercisable at June 30, 2019	306,000	21.75	0.87	—
Expired	306,000			
Outstanding, vested and exercisable at June 30, 2020	—	—	—	—

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The Company recorded share-based compensation expense relating to the 2015 performance options in the amount of $588, nil and nil which is included in general and administrative expenses, in fiscal years 2018, 2019 and 2020, respectively. As of June 30, 2020, there is no unrecognized share-based compensation expense related to the 2015 Performance Options.

Restricted shares

On December 10, 2016, the Company granted 67,500 restricted ordinary shares to certain directors under the 2015 Plan. These restricted shares vest quarterly over a three-year period starting from the directors' respective service inception date. Fair value of the restricted shares was determined with reference to the market closing price at grant date.

On September 19, 2019, the Company granted 67,500 restricted ordinary shares to certain directors under the 2015 Plan. These restricted shares vest quarterly over a three-year period starting from the directors' respective service inception date. Fair value of the restricted shares was determined with reference to the market closing price at grant date.

A summary of the restricted share activity for the year ended June 30, 2020 is as follows:

	Number of restricted shares	Weighted average grant-date fair value
Un-vested at June 30, 2019	18,125	20.09
Granted	67,500	16.06
Vested	22,500	19.31
Un-vested at June 30, 2020	63,125	16.06

The aggregate grant-date fair value of restricted shares vested during the years ended June 30, 2018, 2019 and 2020 were $452, $452 and $434, respectively. $619, $238 and $410 were recorded in general and administrative expenses as restricted share compensation expenses, for the years ended June 30, 2018, 2019 and 2020, respectively. As of June 30, 2020, the aggregated unrecognized compensation expense of $722 related to the restricted shares is expected to be recognized over a weighted-average vesting period of 1.85 years.

NOTE 18 - EMPLOYEE BENEFITS

The Company contributes to a state pension scheme run by the Chinese government in respect of its employees in China, a central provision fund run by the Singapore government in respect of its employees in Singapore, and an employment provident fund in respect of its employees in Malaysia. The expenses related to these plans were $18,994, $18,757 and $17,210 for the years ended June 30, 2018, 2019 and 2020, respectively. These schemes were accounted for as defined contribution plans.

NOTE 19 - INCOME TAX

BVI

Hollysys and its subsidiaries incorporated in the BVI are not subject to income tax under the relevant regulations.

Singapore

The Company's wholly owned subsidiaries incorporated in Singapore are subject to Singapore corporate tax at a rate of 17% on the assessable profits arising from Singapore.

Malaysia

The Company's wholly owned subsidiaries incorporated in Malaysia are subject to Malaysia corporate income tax at a rate of 24% on the assessable profits arising from Malaysia.

Dubai

The branch of the Company's wholly owned subsidiary is a tax exempt company incorporated in Dubai, and no tax provision has been made for each of the years ended June 30, 2018, 2019 and 2020.

Hong Kong

The Company's wholly owned subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the assessable profits arising from Hong Kong for the year ended June 30, 2020. For the year ended June 30, 2020, the provision for Hong Kong profits tax has been made in the consolidated statements of comprehensive income. No provision for Hong Kong profits tax has been made in the consolidated statements of comprehensive income as there were sustained taxable losses arising from Hong Kong for each of the years ended June 30, 2018 and 2019.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Macau

The Company's wholly owned subsidiary incorporated in Macau is subject to the Macau corporate income tax at a rate of 12% on the assessable profits arising from Macau, with an exemption up to MOP600. No provision for Macau profits tax has been made in the consolidated statements of comprehensive income for each of the years ended June 30, 2018, 2019 and 2020.

India

The Company's wholly owned subsidiary incorporated in India is subject to India corporate tax at a rate of 30% on its worldwide income. No provision for India profits tax has been made in the consolidated statements of comprehensive income as there were no taxable profits noted for each of the years ended June 30, 2018, 2019 and 2020.

Qatar

CECL is subject to the Qatar Corporate income tax at a rate of 10% on the assessable profit arising from Qatar.

Indonesia

The Company's wholly owned subsidiary incorporated in Indonesia is subject to the Indonesia Corporate income tax at a rate of 25% on the assessable profit arising from Indonesia. No provision for Indonesia tax has been made in the consolidated statements of comprehensive income as there were no assessable profits noted for the years ended June 30, 2018, 2019 and 2020.

PRC

The Company's subsidiaries incorporated in the PRC are subject to PRC enterprise income tax ("EIT") on their respective taxable incomes as adjusted in accordance with relevant PRC income tax laws. The PRC statutory EIT rate is 25%. The Company's PRC subsidiaries are subject to the statutory tax rate except for the followings:

Beijing Hollysys Co., Ltd ("Beijing Hollysys")

Beijing Hollysys was certified as a High and New Technology Enterprise ("HNTE") which provides a preferential EIT rate of 15% for three calendar years from 2020 to 2022.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Further, Beijing Hollysys was qualified for the Key Software Enterprise (“KSE”) status in calendar year 2019 and was entitled to the preferential tax rate of 10% for calendar year 2019. An entity can use the preferential rate of KSE after its self-assessment, of which, the filing documents for KSE status shall be well prepared and filed for the future inspection from tax authorities as they hold the right to inspect the KSE status.

Hangzhou Hollysys Automation Co., Ltd (“Hangzhou Hollysys”)

Hangzhou Hollysys was certified as a HNTE which provides a preferential EIT rate of 15% for three calendar years from 2017 to 2019. Hangzhou Hollysys expects to receive the renewed HNTE certificate

Further, Hangzhou Hollysys was qualified for the KSE status in calendar year 2019 and was entitled to the preferential tax rate of 10% for calendar year 2019. An entity can use the preferential rate of KSE after its self-assessment, of which, the filing documents for KSE status shall be well prepared and filed for the future inspection from tax authorities as they hold the right to inspect the KSE status.

Hollysys Industrial Software

Hollysys Industrial Software was certified as a HNTE which provides a preferential EIT rate of 15% for three calendar years from 2019 to 2021.

The Company’s income (losses) before income taxes consists of:

	Year ended June 30,		
	2018	**2019**	**2020**
PRC	$ 127,301	$ 155,691	$ 140,539
Non-PRC	2,341	(11,968)	(43,042)
	$ 129,642	$ 143,723	$ 97,497

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Income tax expense, most of which is incurred in the PRC, consists of:

	Year ended June 30,		
	2018	**2019**	**2020**
Current income tax expense			
PRC	17,268	22,206	10,369
Non-PRC	6,462	2,175	1,388
	$ 23,730	$ 24,381	$ 11,757
Deferred income tax (benefit) expense			
PRC	(1,348)	(5,722)	5,577
Non-PRC	(177)	(475)	837
	$ (1,525)	(6,197)	6,414
	$ 22,205	$ 18,184	$ 18,171

Reconciliation of the income tax expenses as computed by applying the PRC statutory tax rate of 25% to income before income taxes and the actual income tax expenses is as follows:

	Year ended June 30,		
	2018	**2019**	**2020**
Income before income taxes	$ 129,642	$ 143,723	$ 97,497
Expected income tax expense at statutory tax rate in the PRC	32,410	35,931	24,374
Effect of different tax rates in various jurisdictions	(521)	1,781	3,997
Effect of preferential tax treatment	(11,678)	(13,444)	(11,797)
Effect of non-taxable income	(284)	(1,500)	(250)
Effect of additional deductible research and development expenses	(4,260)	(5,833)	(7,241)
Effect of non-deductible expenses	3,046	5,489	10,661
Over provision of income tax in previous years	(4,801)	(8,457)	(6,118)
Change in valuation allowance	2,359	1,399	3,746
Withholding tax on dividends paid by subsidiaries	4,784	2,847	799
Others	1,150	(29)	—
Total	$ 22,205	$ 18,184	$ 18,171

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The breakdown of deferred tax assets/liabilities caused by the temporary difference is shown as below:

	June 30,	
	2019	2020
Deferred tax assets		
Allowance for doubtful accounts	$ 8,805	$ 7,808
Deferred subsidies	1,916	2,484
Warranty liabilities	1,234	984
Inventory provision	655	687
Long-term assets	357	397
Provision for loss contracts	59	99
Net operating loss carry forward	12,846	13,824
Valuation allowance	(11,428)	(14,821)
Others	385	325
Total deferred tax assets	$ 14,829	$ 11,787
Deferred tax liabilities		
Property, plant and equipment	$ (13)	$ (11)
Costs and estimated earnings in excess of billings	(365)	(3,396)
Share of net losses of equity investees	(739)	(668)
PRC dividend withholding tax	(5,825)	(6,654)
Intangible assets and other non-current assets	(6,335)	(6,089)
Total deferred tax liabilities	$ (13,277)	$ (16,818)

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

As of June 30, 2020 the Company had incurred net losses of $157, $74,841, $973 derived from entities in the PRC, Singapore and Indonesia, respectively. The net losses in the PRC can be carried forward for five years, to offset future net profit for income tax purposes. The net losses in Singapore and Indonesia can be carried forward without an expiration date. For the amount as of June 30, 2020, nil will expire, if not utilized, from calendar years ending December 31, 2020 to 2024.

Realization of the deferred tax assets is dependent on factors including future reversals of existing taxable temporary differences and adequate future taxable income, exclusive of reversing deductible temporary differences and tax loss or credit carry forwards. The Group evaluates the potential realization of deferred tax assets on an entity-by-entity basis. As of June 30, 2019 and 2020, valuation allowances were provided against deferred tax assets in entities where it was determined it was more likely than not that the benefits of the deferred tax assets will not be realized.

Under the EIT Law and the implementation rules, profits of the Company's PRC subsidiaries earned on or after January 1, 2008 and distributed by the PRC subsidiaries to their respective foreign holding companies are subject to a withholding tax at 10% unless reduced by tax treaty. As of June 30, 2019 and 2020, the aggregate undistributed earnings from the Company's PRC subsidiaries that are available for distribution are RMB5,130,795 (equivalent to $776,254) and RMB6,002,587 (equivalent to $900,285), respectively. The Company expects to distribute a portion of the earnings (RMB470,288 or $66,537) to the holding companies located outside mainland China, and has hence accrued a withholding tax of $6,654 as of June 30, 2020. The remaining undistributed earnings of the Company's PRC subsidiaries are intended to be permanently reinvested, and accordingly, no deferred tax liabilities have been provided for the PRC dividend withholding taxes that would be payable upon the distribution of those amounts to the Company.

As of June 30, 2019 and 2020, the undistributed retained earnings generated from periods prior to January 1, 2008 were $63,716 which are not subject to PRC dividend withholding taxes. Accordingly, as of June 30, 2019 and June 30, 2020, the total amounts of undistributed earnings generated from the Company's PRC subsidiaries for which no withholding tax has been accrued were $621,707 and $802,162, respectively. Deferred tax liabilities subject to be recognized would have been $61,999 and $73,845 respectively, if all such undistributed earnings were distributed to the Company in full as of June 30, 2019 and June 30, 2020.

The Chinese tax law grants the tax authorities the rights to further inspect companies' tax returns retroactively in a three-year period (up to five years under certain special conditions), which means theoretically the tax authorities can still review the PRC subsidiaries' tax returns for the years ended December 31, 2015 through 2019. The tax law also states that companies will be liable to additional tax, interest charges and penalties if errors are found in their tax returns and such errors have led to an underpayment of tax.

As of June 30, 2019 and 2020, the Company concluded that there was no significant unrecognized tax benefits requiring recognition in the consolidated financial statements. The amount of unrecognized tax benefits may change in the next 12 months, pending clarification of current tax law or audit by the tax authorities. However, an estimate of the range of the possible change cannot be made at this time. As of June 30, 2019 and 2020, no unrecognized tax benefits, if ultimately recognized, will impact the effective tax rate. The Company recorded no penalty or interest for the years ended June 30, 2018, 2019 and 2020, respectively.

NOTE 20 - OPERATING LEASES

Operating lease as lessee

The Company's lease agreements include payments for land use rights and lease payments that are largely fixed, do not contain material residual value guarantees or variable lease payments. The leases, other than prepaid land leases, have remaining lease terms of up to five years. Certain lease agreements include terms with options to extend the lease, however none of these have been recognized in the Company's right-of-use assets or lease liabilities since those options were not reasonably certain to be exercised.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The Company's leases do not contain restrictions or covenants that restrict the Company from incurring other financial obligations.

	Fiscal year ended June 30, 2020
Operating lease costs	1,608
Short-term lease costs	537
Amortization of prepaid land leases	384
Total lease costs	2,529

	Fiscal year ended June 30, 2020
Other information	
Cash paid for amounts included in the measurement of operating lease liabilities	2,460
ROU assets obtained in exchange for new operating lease liabilities	1,614
Weighted-average remaining lease term (in years):	
Operating leases	2.25
Weighted-average discount rate:	
Operating leases	3.76%

For the fiscal year ended June 30, 2020, total lease costs of $881 were recorded in selling expenses, $1,052 were recorded in general and administrative expenses, and $596 were recorded in research and development expenses. For the fiscal year ended June 30, 2019, total lease costs of $1,013 were recorded in selling expenses, $627 were recorded in general and administrative expenses, and $338 were recorded in research and development expenses. For the fiscal year ended June 30, 2018, total lease costs of $596 were recorded in selling expenses, $1,182 were recorded in general and administrative expenses, and $515 were recorded in research and development expenses.

Total expenses under operating leases were $2,529 for the fiscal year ended June 30, 2020. The total amortization of prepaid land leases was $384 for the fiscal year ended June 30, 2020.

Future minimum lease payments for operating leases as of June 30, 2020 are as follows:

	As of June 30, 2020
2021	$ 3,038
2022	2,172
2023	1,023
2024	385
2025 and onwards	—
Total minimum lease payments	6,618
Less: imputed interest	827
Total lease liability balance	$ 5,791

Operating lease as lessor

The Company entered into operating lease arrangements to lease out its buildings located in Beijing with lease term ranging from ten to fifteen years. The lease arrangements include lease payments that are largely fixed and do not contain variable lease payments. The leases do not contain any contingent rental income clauses or options for a lessee to purchase the buildings.

Total rental income for the fiscal years ended June 30, 2018, 2019 and 2020 were $1,571, $1,727 and $2,807 respectively and were recorded under other income on the consolidated statements of comprehensive income.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Future minimum lease payments to be received for these operating lease arrangements for each of the five succeeding fiscal years as of June 30, 2020 are as follows:

Year ending June 30,	Minimum lease payments
2021	$ 1,549
2022	1,595
2023	1,643
2024	278
2025	—
Total minimum lease payments to be received in the next five years	$ 5,065

NOTE 21 - INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share attributable to the Company's common shareholders for the years indicated:

	Year ended June 30,		
	2018	2019	2020
Numerator:			
Net income attributable to the Company as reported	$ 107,161	$ 125,261	$ 79,396
Less: Earnings allocated to participating securities	—	—	(83)
Net income attributable to common stockholders - basic	$ 107,161	$ 125,261	$ 79,313
Add:			
Effect of Convertible Bond	264	562	93
Earnings allocated to participating securities	—	—	83
Less:			
Earnings reallocated to participating securities considering potentially dilutive securities	—	—	(83)
Net income attributable to common stockholders – diluted	$ 107,425	$ 125,823	$ 79,406
Denominator:			
Weighted average ordinary shares outstanding used in computing basic income per share(i)	60,434,019	60,456,524	60,478,717
Effect of dilutive securities			
Convertible Bond	788,800	796,200	130,525
Restricted shares	25,746	21,160	—
Weighted average ordinary shares outstanding used in computing diluted income per share	61,248,565	61,273,884	60,609,242
Income per share – basic	$ 1.77	2.07	1.31
Income per share – diluted	$ 1.75	2.05	1.31

(i) Vested and unissued restricted shares of 91,920, 114,425 and 15,000 shares are included in the computation of basic and diluted income per share for the years ended June 30, 2018, 2019 and 2020, respectively. The effect of share options has been excluded from the computation of diluted income per share for the years ended June 30, 2018 and 2019 as their effects would be anti-dilutive. There were no outstanding share options for the year ended June 30, 2020.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

NOTE 22 - RELATED PARTY TRANSACTIONS

The related party relationships and related party transactions are listed as follows:

Related party relationships

Name of related parties	Relationship with the Company
China Techenergy Co., Ltd. (“China Techenergy”)	40% owned by Beijing Hollysys
Beijing Hollysys Electric Motor Co., Ltd. (“Electric Motor”)	40% owned by Beijing Hollysys
Beijing Hollysys Machine Automation Co., Ltd. (“Hollysys Machine”)	30% owned by Hollysys (Beijing) Investment Co., Ltd. (“Hollysys Investment”)
Beijing Hollycon Medicine & Technology. Co., Ltd. (“Hollycon”)	30% owned by Hollysys Group Co., Ltd.(“Hollysys Group”)
Ningbo Hollysys Intelligent Technologies Co., Ltd. (“Ningbo Hollysys”)	40% owned by Hollysys Group
Hunan LingXiang Maglev Technology Co., Ltd.(“Hunan LingXiang”)	19% owned by Beijing Hollysys

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Due from related parties

	June 30,	
	2019	2020
China Techenergy	$ 28,048	$ 14,301
Ningbo Hollysys	7,973	6,142
Hollycon	124	961
Hunan LingXiang	—	40
Hollysys Machine	150	—
	$ 36,295	$ 21,444

The Company’s management believes that the collection of amounts due from related parties is reasonably assured and accordingly and no provision had been made for these balances.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Due to related parties

	June 30,	
	2019	**2020**
China Techenergy	$ 4,659	$ 2,967
Ningbo Hollysys	736	609
	$ 5,395	$ 3,576

Transactions with related parties

<u>*Purchases of goods and services from:*</u>

	Year ended June 30,		
	2018	**2019**	**2020**
Ningbo Hollysys (i)	$ —	$ 702	$ 1,838
Hollycon	16	4	—
Electric Motor	77	—	—
	$ 93	$ 706	$ 1,838

(i) The Company purchases products from Ningbo Hollysys used to provide an integrated automation and control system to its customer.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Sales of goods and integrated solutions to:

	Year ended June 30,		
	2018	**2019**	**2020**
China Techenergy (i)	$ 11,519	$ 11,094	$ 1,711
Hollycon (ii)	225	44	1,302
Ningbo Hollysys (ii)	—	472	179
HuNan LingXiang	—	—	38
Others	86	—	—
	$ 11,830	$ 11,610	$ 3,230

(i) The Company sells automation control systems to China Techenergy which is used for non-safety operations control in the nuclear power industry. China Techenergy incorporates the Company's non-safety automation control systems with their proprietary safety automated control systems to provide an overall automation and control system for nuclear power stations in China. The Company is not a party to the integrated sales contracts executed between China Techenergy and its customers. The Company's pro rata shares of the intercompany profits and losses are eliminated until realized through a sale to third party customers, as if China Techenergy is a consolidated subsidiary.

(ii) The Company sells products to Hollycon and Ningbo Hollysys, which incorporate the Company's product with its automated systems to provide an integrated automation and control system to their customers. The Company's pro rata shares of the intercompany profits and losses are eliminated until realized through a sale to third party customers, as if Hollycon and Ningbo Hollysys are consolidated subsidiaries.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Other income from:

	Year ended June 30,		
	2018	2019	2020
Ningbo Hollysys (i)	$ —	$ 1,548	$ 2,214
Hollycon (ii)	731	972	880
China Techenergy			1,122
	$ 731	$ 2,520	$ 4,216

(i) The Company entered into an operating lease agreement with Ningbo Hollysys to lease part of a building in Beijing, respectively. The lease term is for one year from the commencement date of January 1, 2020 to December 31, 2020. The Company entered into a loan agreement with Ningbo Hollysys amounting to $7,074 with an annual interest rate of 4.35%.

(ii) The Company entered into an operating lease agreement with Hollycon to lease part of building located in Beijing. The lease term was for one year and ended on May 31, 2020 and a renewed lease agreement was signed with a one year lease term of June 1, 2020 to May 31, 2021.

Research and development:

	Year ended June 30,		
	2018	2019	2020
Ningbo Hollysys (i)	$ —	$ —	$ 655

(i) The Company purchases research and development services from Ningbo Hollysys for research and development projects in the field of intelligent manufacturing.

Amounts due from and due to the related parties relating to the above transactions are unsecured, non-interest bearing and repayable on demand excluding a loan due from Ningbo Hollysys.

NOTE 23 - COMMITMENTS AND CONTINGENCIES

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Capital commitments

As of June 30, 2020, the Company had $14,359 in capital obligations for the coming fiscal year, mainly for the construction of facilities.

Purchase obligations

As of June 30, 2020, the Company had $233,484 purchase obligations for the coming fiscal years, for purchases of inventories and subcontracts, mainly for fulfillment of in-process or newly entered contracts resulting from the expansion of the Company's operations as follows:

Years ending June 30,	Minimum payments
2021	$ 187,749
2022	17,150
2023	11,434
2024	5,717
2025	5,717

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Performance guarantee and standby letters of credit

The Company had stand-by letters of credit of $1,850 and outstanding performance guarantees of $42,117 as of June 30, 2020, with restricted cash of $9,782 pledged to banks. The purpose of the stand-by letter of credit and performance guarantees is to guarantee that the performance of the Company's deliveries reach the pre-agreed requirements specified in the integrated solutions contracts. The guarantee is to ensure the functionality of the Company's own work. The disclosed amount of stand-by letters of credit and outstanding performance guarantees represent the maximum potential amount of future payments the Company could be required to make under such guarantees.

The Company accounts for performance guarantees and stand-by letters of credit in accordance with ASC topic 460 ("ASC 460"), *Guarantees.* Accordingly, the Company evaluates its guarantees to determine whether (a) the guarantee is specifically excluded from the scope of ASC 460, (b) the guarantee is subject to ASC 460 disclosure requirement only, but not subject to the initial recognition and measurement provisions, or (c) the guarantee is required to be recorded in the financial statements at fair value.

Both the performance guarantees and the stand-by letters of credit are for the Company's commitment of its own future performance, and the outcome of which is within its own control. As a result, performance guarantees and stand-by letters of credit are subject to ASC 460 disclosure requirements only.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

NOTE 24 - SEGMENT REPORTING

The chief operating decision maker ("CODM") has been identified as the Chairman, Chief Executive Officer and Chief Financial Officer of the Company. The Company organizes its internal financial reporting structure based on its main product and service offerings.

Based on the criteria established by ASC 280, *Segment Reporting* ("ASC 280"), the Company has determined that the reportable segments of the Company consist of (1) IA, (2) Rail, (3) M&E, in accordance with the Company's organization and internal financial reporting structure. The CODM assesses the performance of the operating segments based on the measures of revenues, costs and gross profit. Other than the information provided below, the CODM does not use any other measures by segments.

Summarized information by segments for the years ended June 30, 2018, 2019, and 2020 is as follows:

	Year ended June 30, 2018			
	IA	**Rail**	**M&E**	**Consolidated**
Revenues from external customers				
Integrated solutions contracts revenue	$ 178,769	162,696	124,996	466,461
Product sales	35,387	4,846	—	40,233
Maintenance service revenue	9,547	21,390	334	31,271
Extended warranty service revenue	1,090	1,713	—	2,803
Total	224,793	190,645	125,330	540,768
Costs of revenue	135,633	90,574	108,681	334,888
Gross profit	$ 89,160	100,071	16,649	205,880

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

	Year ended June 30, 2019			
	IA	**Rail**	**M&E**	**Consolidated**
Revenues from external customers				
Integrated solutions contracts revenue	$ 191,668	148,365	127,338	467,371
Product sales	27,390	5,712	—	33,102
Maintenance service revenue	13,978	53,359	288	67,625
Extended warranty service revenue	762	1,481	—	2,243
Total	233,798	208,917	127,626	570,341
Costs of revenue	139,010	109,567	110,598	359,175
Gross profit	$ 94,788	99,350	17,028	211,166

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

	Year ended June 30, 2020			
	IA	Rail	M&E	Consolidated
Revenues from external customers				
Integrated solutions contracts revenue	$ 207,421	145,750	61,101	414,272
Product sales	15,504	4,640	—	20,144
Maintenance service revenue	15,985	49,140	916	66,041
Extended warranty service revenue	1,061	1,809	—	2,870
Total	239,971	201,339	62,017	503,327
Costs of revenue	154,298	107,382	51,079	312,759
Gross profit	$ 85,673	93,957	10,938	190,568

The majority of the Company's revenues and long-lived assets other than goodwill and intangible assets are derived from and located in the PRC. The following table sets forth the revenues by geographical area:

	Year ended June 30,		
	2018	2019	2020
Revenues:			
PRC	$ 412,993	$ 438,832	$ 441,305
Non-PRC	127,775	131,509	62,022
	$ 540,768	$ 570,341	$ 503,327

The following table sets forth the long-lived assets other than goodwill and intangible assets by geographical area:

	June 30,	
	2019	2020
Long-lived assets other than goodwill and acquired intangible assets		
PRC	$ 125,781	$ 129,340
Non-PRC	11,986	11,938
	$ 137,767	$ 141,278

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

NOTE 25 - ENDORSEMENT OF NOTE RECEIVABLES

The Company endorsed bank acceptance bills to its suppliers as a way of settling accounts payable. The total endorsed but not yet due bank acceptance bills amounted to $46,162 and $37,333 as of June 30, 2019 and 2020, respectively. The endorsement of bank acceptance bills qualified as deemed sales of financial assets according to ASC 860, *Transfer and Servicing* ("ASC 860") because the bank acceptance bills have been isolated from the Company upon transfer, the transferee has the rights to pledge or exchange the bank acceptance bills, and the Company has no control over the bank acceptance bills upon endorsement. As a result, bank acceptance bills are derecognized at the time of endorsement.

NOTE 26 - CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

Under the PRC laws and regulations, the Company's PRC subsidiaries' ability to transfer net assets in the form of dividend payments, loans, or advances are restricted. The amount restricted was RMB619,403 (equivalent to $91,624) and RMB624,496 (equivalent to $92,349) as of June 30, 2019, and 2020, respectively.

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

The following represents condensed unconsolidated financial information of the parent company only:

CONDENSED BALANCE SHEETS

	June 30, 2019	June 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,349	$ 13,265
Time deposits with original maturities over three months	—	11,318
Other receivables, net	—	31
Amounts due from subsidiaries	57,703	53,503
Prepaid expenses	78	97
Total current assets	**106,130**	**78,214**
Investment in subsidiaries	986,155	1,046,725
Total assets	**$ 1,092,285**	**$ 1,124,939**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term loans	$ 19,995	$ —
Derivative financial liability	758	—
Amounts due to subsidiaries	126,146	140,456
Total liabilities	**146,899**	**140,456**
Equity:		
Ordinary shares, par value $0.001 per share, 100,000,000 shares authorized; 60,342,099 shares issued and 60,537,099 shares issued and outstanding as of June 30, 2019 and 2020, respectively	60	61
Additional paid-in capital	223,634	224,043
Retained earnings	757,213	823,896
Accumulated other comprehensive loss	(35,521)	(63,517)
Total equity	**945,386**	**984,483**
Total liabilities and equity	**$ 1,092,285**	**$ 1,124,939**

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended June 30,		
	2018	**2019**	**2020**
General and administrative expenses	$ 1,751	$ 1,511	$ 1,344
Loss from operations	**(1,751)**	**(1,511)**	**(1,344)**
Other expense, net	—	(346)	—
Interest income	—	—	309
Interest expenses	(748)	(562)	(90)
Foreign exchange losses	(97)	(72)	(1,043)
Share of net income of subsidiaries	$ 109,757	$ 127,752	$ 81,564
Income before income taxes	**107,161**	**125,261**	**79,396**
Income tax expenses	—	—	—
Net income	**107,161**	**125,261**	**79,396**
Other comprehensive income, net of tax of nil			
Translation adjustment	17,406	(31,341)	(27,996)
Comprehensive income	**$ 124,567**	**$ 93,920**	**$ 51,400**

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

CONDENSED STATEMENTS OF CASH FLOWS

	Year ended June 30,		
	2018	**2019**	**2020**
Cash flows from operating activities:			
Net income	$ 107,161	$ 125,261	$ 79,396
Adjustments to reconcile net income to net cash used in operating activities:			
Share of net income of subsidiaries	(109,757)	(127,752)	(81,564)
Share-based compensation expenses	1,207	238	410
Accretion of convertible bond	230	230	57
Fair value adjustments of a bifurcated derivative	(75)	346	—
Change in operating assets and liabilities	14	(28)	(142)
Net cash used in operating activities	**$ (1,220)**	**$ (1,705)**	**$ (1,843)**
Cash flows from investing activities:			
Collection of loans from subsidiaries	50,649	—	—
Loans to subsidiaries	(5,000)	(4,200)	(19,775)
Investment in subsidiaries	(15,707)	—	—
Net cash provided by (used in) investing activities	**$ 29,942**	**$ (4,200)**	**$ (19,775)**
Cash flows from financing activities:			
Repayment of convertible bond	—	—	(20,753)
Proceeds of loans from subsidiaries	—	43,538	20,000
Payment of dividends	(7,241)	(10,862)	(12,713)
Repayment of loans from subsidiaries	(13,006)	—	—
Net cash (used in) provided by financing activities	$ **(20,247)**	$ **32,676**	$ **(13,466)**
Net increase in cash and cash equivalents	**$ 8,475**	**$ 26,771**	**$ (35,084)**
Cash and cash equivalents, beginning of period	13,103	21,578	48,349
Cash and cash equivalents, end of period	$ 21,578	$ 48,349	$ 13,265

HOLLYSYS AUTOMATION TECHNOLOGIES, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, 2019 AND 2020 – continued
(Amounts in thousands except for number of shares and per share data)

Basis of presentation

For the presentation of the parent company only condensed financial information, the Company records its investment in subsidiaries under the equity method of accounting as prescribed in ASC 323, *Investments—Equity Method and Joint Ventures* (“ASC 323”). Such investment is presented on the condensed balance sheets as Investment in subsidiaries and the subsidiaries’ profit as Share of net income of subsidiaries on the condensed statements of comprehensive income. The parent company only financial statements should be read in conjunction with the Company’s consolidated financial statements.

Commitments

The Company does not have significant commitments or long-term obligations as of the period end other than those presented.

Exhibit 2.2

DESCRIPTION OF RIGHTS OF ORDINARY SHARES REGISTERED PURSUANT TO SECTION 12 OF THE EXCHANGE ACT AS OF JUNE 30, 2020

As of June 30, 2020, Hollysys Automation Technologies Ltd. had one class of securities registered under Section 12 of the Exchange Act—its ordinary shares, US$0.001 par value each. References herein to “we,” “us,” “our” and “Company” refer to Hollysys Automation Technologies Ltd.

The following represents a summary of our securities and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Memorandum and Articles of Association. We encourage you to read our Amended and Restated Memorandum and Articles of Association (“Amended and Restated M&A”), listed as an exhibit to this report, as well as the applicable provisions of British Virgin Islands (“BVI”) law for additional information.

Type and Class of Securities (Item 9.A.5 of Form 20-F)

Our Amended and Restated M&A authorizes the issuance of up to 190,000,000 shares, including 100,000,000 ordinary shares of US$0.001 par value each (the “Ordinary Shares”); and 90,000,000 preferred shares of US$0.001 par value each (the “Class A Preferred Shares”). As of June 30, 2020, there were 60,537,099 Ordinary Shares issued and outstanding. There was no Class A Preferred Shares issued and outstanding as of June 30, 2020. Our Ordinary Shares are listed on the Nasdaq Global Select Market under the trading symbol “HOLI.” Our Ordinary Shares may be held in either certificated or uncertificated form. We may issue registered shares only and are not authorized to issue bearer shares. Registered shares may not be exchanged for bearer shares or converted to bearer shares.

Preemptive Rights (Item 9.A.3 of Form 20-F)

Our shareholders do not have preemptive rights.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

None.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of Ordinary Shares (Item 10.B.3 of Form 20-F)

Dividends. Subject to the BVI Business Companies Act, as amended (the "Act"), our directors may, by resolution of directors, declare dividends and distributions by the Company to shareholders and authorize payment on the dividends or distributions so long as that immediately after the distribution, the value of our assets exceeds our liabilities and we are able to pay our debts as they fall due. Any distribution payable in respect of a share which has remained unclaimed for three years from the date when it became due for payment shall, if our Board so resolves, be forfeited and cease to remain owing by us. Our directors may, before authorizing any distribution, set aside out of our profits such sum as they think proper as a reserve fund, and may invest the sum so set apart as a reserve fund upon such securities as they may select.

The holder of each Ordinary Share has the right to an equal share in any distribution paid by the Company.

Voting Rights. Each share in the Company confers on the holder the right to one vote at a meeting of the shareholders of the Company or on any resolution of the shareholders of the Company.

Rights in the event of winding up. The holder of each Ordinary Share is entitled to an equal share in the distribution of the surplus assets of the Company on a winding up.

Redemption. We may purchase, redeem or otherwise acquire and hold our own shares, for such consideration as the directors consider fit without the consent of shareholders whose shares are to be purchased, redeemed or otherwise acquired.

Liability for Further Capital Calls. Shareholders are not obligated to make any further contributions to our share capital other than as agreed by the subscriber of the relevant shares on subscription. This provision means that holders of Ordinary Shares will not be obligated to make further contributions to our share capital.

Requirements to Change the Rights of Holders of Ordinary Shares (Item 10.B.4 of Form 20-F)

The rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of not less than three-fourths of the issued shares of that class and the holders of not less than three-fourths of the issued shares of any other class of shares which may be affected by such variation. This is not a statutory requirement under the Act and has been imposed pursuant to the terms of the Amended and Restated M&A.

Limitations on the Rights to Own Ordinary Shares (Item 10.B.6 of Form 20-F)

There are no limitations on the right of any person, including non-residents or foreign persons, to own, or exercise voting rights with respect to, our securities imposed by BVI law or by our Amended and Restated M&A, other than with respect to our 2010 Rights Plan.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

While directors of the Company may be appointed by the shareholders or directors for such terms as may be determined at the time of such appointment, and may be removed by resolution of directors with or without cause, directors may not be removed by the shareholders except for cause.

Our unissued and unreserved shares, including unissued and unreserved preferred shares, are at the disposal of the directors who may offer, allot, grant options over or otherwise dispose of them to such persons at such times and for such consideration, being not less than the par value of the shares being disposed of, and upon such terms and conditions as the directors may determine. While the issuance of preferred shares provides us with flexibility in connection with possible acquisitions or other corporate purposes, it could, among other things, have the effect of delaying, deferring or preventing a change of control transaction and could adversely affect the market price of our Ordinary Shares. We have no current plan to issue any preferred shares.

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions governing the ownership threshold above which shareholder ownership must be disclosed imposed by BVI law or by our memorandum and articles of association.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

BVI law differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of BVI law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Protection for Minority Shareholders

Under the laws of most U.S. jurisdictions, majority and controlling shareholders of a company generally have certain “fiduciary” responsibilities to the minority shareholders. Corporate actions taken by majority and controlling shareholders that are unreasonable and materially detrimental to the interests of minority shareholders may be declared null and void. Minority shareholders may have less protection for their rights under BVI law than they would have under U.S. law.

Powers of Directors

Unlike most U.S. jurisdictions, the directors of a BVI company, subject in certain cases to a court's approvals but without shareholders' approval, may implement the sale, transfer, exchange or disposition of any asset, property, part of the business, or securities of the company, with the exception that shareholder approval is required for the disposition of over 50% in the value of the total assets of the company.

Conflict of Interests

Similar to the laws of most U.S. jurisdictions, when a director becomes aware of the fact that he or she has an interest in a transaction which we are to enter into, he or she must disclose it to our Board. However, with sufficient disclosure of interest in relation to that transaction, the director who is interested in a transaction entered into or to be entered into us may (i) vote on a matter relating to the transaction; (ii) attend a meeting of directors at which a matter relating to the transaction arises and be included in the quorum; and (iii) sign a document on behalf of us, or do any other thing in his capacity as a director, that relates to the transaction.

Written Consent and Cumulative Voting

Similar to the laws of most U.S. jurisdictions, under the BVI law, shareholders are permitted to approve matters by way of written resolution in place of a formal meeting. BVI law does not make a specific reference to cumulative voting, and there is no provision authorizing cumulative voting under our Amended and Restated M&A. Many U.S. jurisdictions permit cumulative voting.

Takeover Provisions

On August 27, 2010, our Board adopted the Rights Plan that provides for the issuance of one Right for each of our outstanding ordinary shares. In September 2020, we adopted the Amended and Restated Rights Plan which amends and restates the Rights Plan in its entirety. The Amended and Restated Rights Plan extends the expiration date of the Rights Plan from September 27, 2020 to September 27, 2030, decreases the threshold of the triggering event from 20% to 15%, and includes certain modernizing changes to account for certain synthetic equity positions when determining the beneficial ownership of our shareholders. Pursuant to the Amended and Restated Rights Plan, subject to limited exceptions, upon (i) a person or group obtaining ownership of 15% or more of the aggregate total of our ordinary shares then issued and outstanding or (ii) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the aggregate total of our ordinary shares then issued and outstanding, in each case, without the approval of our Board, each Right will entitle the holders, other than the acquiring person or group, to buy, at a purchase price of $160 one share of our Class A preferred shares (the "Class A Preferred Shares"). Holders are entitled to receive, in lieu of each Class A Preferred Share, ordinary shares having a market value at that time of twice the Right's exercise price. Our board of directors is entitled to redeem the Rights at $0.001 per Right at any time before the Rights are exercisable. We refer to the person who acquired 15% or more of our outstanding ordinary shares as the "acquiring person."

The Rights are designed to assure that all of our shareholders receive fair and equal treatment in the event of any proposed takeover and to guard against partial tender offers, open market accumulations, undisclosed voting arrangements and other abusive or coercive tactics to gain control of our company or our board of directors without paying all shareholders a control premium. The Rights may cause substantial dilution to a person or group that acquires 15% or more of the aggregate total of outstanding ordinary shares on terms not approved by our board of directors.

Shareholder's Access to Corporate Records

A shareholder is entitled, on giving written notice to us, to inspect our (i) Amended and Restated M&A; (ii) register of members; (iii) register of directors; and (iv) minutes of meetings and resolutions of members and of those classes of members of which the shareholder is a member.

Our directors may, if they are satisfied that it would be contrary to our interests to allow a member to inspect any document listed above (or any part thereof), refuse the member to inspect the document or limit the inspection of the document. Our Board may also authorize a member to review our company account if requested.

Indemnification

Under BVI law and our Amended and Restated M&A, we may indemnify against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings, any person who: (a) is or was a party or is threatened to be made a party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was a director; or (b) is or was, at our request, serving as a director of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise.

To be entitled to indemnification, these persons must have acted honestly and in good faith and in what he believes to be the best interest of our company, and they must have had no reasonable cause to believe their conduct was unlawful. Furthermore, such a person must be indemnified by us if he has been successful in the defense of any proceedings.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Mergers and Similar Arrangements

Under the laws of the BVI, two or more companies may merge or consolidate in accordance with Section 170 of the Act. A merger means the merging of two or more constituent companies into one of the constituent companies, and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent company must approve a written plan of merger or consolidation which must be authorized by a resolution of shareholders.

Shareholders not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the memorandum or articles of association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation.

The shareholders of the constituent companies are not required to receive shares of the surviving or consolidated company but may receive debt obligations or other securities of the surviving or consolidated company, or other assets, or a combination thereof. Further, some or all of the shares of a class or series may be converted into a kind of asset while the other shares of the same class or series may receive a different kind of asset. As such, not all the shares of a class or series must receive the same kind of consideration.

After the plan of merger or consolidation has been approved by the directors and authorized by a resolution of the shareholders, articles of merger or consolidation are executed by each company and filed with the Registrar of Corporate Affairs in the BVI.

Dissenter Rights

A shareholder may dissent from a mandatory redemption of his shares, an arrangement (if permitted by the court), a merger (unless the shareholder was a shareholder of the surviving company prior to the merger and continues to hold the same or similar shares after the merger) and a consolidation. A shareholder properly exercising his dissent rights is entitled to payment in cash of the fair value of his shares.

A shareholder dissenting from a merger or consolidation must object in writing to the merger or consolidation before the vote by the shareholders on the merger or consolidation, unless notice of the meeting was not given to the shareholder. If the merger or consolidation is approved by the shareholders, the company must within 20 days give notice of this fact to each shareholder who gave written objection, and to each shareholder who did not receive notice of the meeting. Such shareholders then have 20 days to give their written election in the form specified by the Act to dissent from the merger or consolidation, provided that in the case of a merger, the 20 days starts when the plan of merger is delivered to the shareholder.

Upon giving notice of his election to dissent, a shareholder ceases to have any rights of a shareholder except the right to be paid the fair value of his shares. As such, the merger or consolidation may proceed in the ordinary course notwithstanding the dissent.

Within seven days of the later of the delivery of the notice of election to dissent and the effective date of the merger or consolidation, the company must make a written offer to each dissenting shareholder to purchase his shares at a specified price that the company determines to be their fair value. The company and the shareholder then have 30 days to agree upon the price. If the company and a shareholder fail to agree on the price within the 30 days, then the company and the shareholder shall each designate an appraiser and these two appraisers shall designate a third appraiser. These three appraisers shall fix the fair value of the shares as of the close of business on the day before the shareholders approved the transaction without taking into account any change in value as a result of the transaction.

Under BVI law, shareholders are not entitled to dissenters' rights in relation to liquidation.

Shareholders' Suits

Similar to the laws of most U.S. jurisdictions, BVI law permits derivative actions against its directors. However, the circumstances under which such actions may be brought, and the procedures and defenses available may result in the rights of shareholders of a BVI company being more limited than those of shareholders of a company incorporated and/or existing in the United States.

The High Court of the BVI may, on the application of a shareholder of a company, grant leave to that shareholder to bring proceedings in the name and on behalf of that company, or intervene in proceedings to which the company is a party for the purpose of continuing, defending or discontinuing the proceedings on behalf of the company. In determining whether to grant leave, the High Court of the BVI must take into account (i) whether the shareholder is acting in good faith; (ii) whether the derivative action is in the interests of the company taking account of the views of the company's directors on commercial matters; (iii) whether the proceedings are likely to succeed; (iv) the costs of the proceedings in relation to the relief likely to be obtained; and (v) whether an alternative remedy to the derivative claim is available.

Leave to bring or intervene in proceedings may be granted only if the court is satisfied that (i) the company does not intend to bring, diligently continue or defend, or discontinue the proceedings, as the case may be; or (ii) it is in the interests of the company that the conduct of the proceedings should not be left to the directors or to the determination of the shareholders as a whole.

Changes in Capital (Item 10.B.10 of Form 20-F)

Subject to the provisions of our Amended and Restated M&A, the Act and the rules of NASDAQ, without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting or otherwise as the directors may from time to time determine.

Subject to the provisions of the Amended and Restated M&A relating to changes in the rights of shareholders and the powers of directors in relation to shareholders, we may, by a resolution of shareholders, amend our memorandum of association to increase or decrease the number of shares authorized to be issued.

Debt Securities (Item 12.A of Form 20-F)

None.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable

Other Securities (Item 12.C of Form 20-F)

Not applicable.

American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)

Not applicable.

Exhibit 8.1

LIST OF SUBSIDIARIES OF HOLLYSYS AUTOMATION TECHNOLOGIES LTD.

Subsidiaries and VIE	Jurisdiction of incorporation
Hollysys International Pte. Limited	Singapore
Hollysys (Asia Pacific) Pte. Limited	Singapore
Hollysys Automation India Private Limited	India
Gifted Time Holdings Limited	British Virgin Islands
Clear Mind Limited	British Virgin Islands
World Hope Enterprises Limited	Hong Kong
Concord Solutions (HK) Limited	Hong Kong
Beijing Helitong Science & Technology Exploration Co., Ltd.	PRC
Hollysys Group Co., Ltd.	PRC
Beijing Hollysys Co., Ltd.	PRC
Hangzhou Hollysys Automation Co., Ltd.	PRC
Hangzhou Hollysys System Engineering Co., Ltd.	PRC
Beijing Hollysys Electronics Technology Co., Ltd.	PRC
Hollysys (Beijing) Investment Co., Ltd.	PRC
Xi'an Hollysys Co., Ltd.	PRC
Beijing Hollysys Industrial Software Company Ltd.	PRC
HollySys Smart Energy Technology (Beijing) Co., Ltd.	PRC
Cixi HollySys Precision Technology Co., Ltd.	PRC
Shandong Lukang Pharmaceutical Engineering Design Co., Ltd.	PRC
Beijing Hollysys Technology Co., Ltd.	PRC
Xuzhou Hollysys Valve Technology Co., Ltd.	PRC
Concord Corporation Pte. Ltd.	Singapore
Concord Electrical Contracting Ltd.	Qatar
Concord Electrical Sdn. Bhd.	Malaysia
Concord M Design and Engineering Company Limited	Macau
Bond Corporation Pte. Ltd.	Singapore
Bond M&E Pte. Ltd.	Singapore
Bond M&E Sdn. Bhd.	Malaysia
Bond M&E (KL) Sdn. Bhd.	Malaysia
PT Hollysys Automation Indonesia	Indonesia

Exhibit 12.1

CERTIFICATIONS

I, Chit Nim (Colin) Sung, certify that:

1. I have reviewed this annual report on Form 20-F of Hollysys Automation Technologies Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the consolidated statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: September 28, 2020

By: /s/ Chit Nim (Colin) Sung
Name: Chit Nim (Colin) Sung
Title: Chief Executive Officer
(Principal Executive Officer)

Exhibit 12.2

CERTIFICATIONS

I, Steven Wang, certify that:

1. I have reviewed this annual report on Form 20-F of Hollysys Automation Technologies Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: September 28, 2020

By: /s/ Steven Wang
Name: Steven Wang
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 13.1

CERTIFICATION

PURSUANT TO RULE 13A-14(B) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Annual Report of Hollysys Automation Technologies Ltd. (the "Company") on Form 20-F for the fiscal year ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chit Nim (Colin) Sung, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of June 30, 2020 and results of operations of the Company for the fiscal year ended June 30, 2020.

/s/ Chit Nim (Colin) Sung

Name: Chit Nim (Colin) Sung
Title: Chief Executive Officer
(Principal Executive Officer)

Date: September 28, 2020

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this Annual Report or as a separate disclosure document.

Exhibit 13.2

CERTIFICATION

PURSUANT TO RULE 13A-14(B) UNDER THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Annual Report of Hollysys Automation Technologies Ltd. (the "Company") on Form 20-F for the fiscal year ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven Wang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of June 30, 2020 and results of operations of the Company for the fiscal year ended June 30, 2020.

/s/ Steven Wang

Name: Steven Wang
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: September 28, 2020

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this Annual Report or as a separate disclosure document.

Exhibit 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-208615) pertaining to the 2015 Equity Incentive Plan of Hollysys Automation Technologies Ltd.,

(2) Registration Statement (Form F-3 No. 333-208631) pertaining to the registration of 776,800 ordinary shares of Hollysys Automation Technologies Ltd. and

(3) Registration Statement (Form F-3 No. 333-230768) pertaining to the registration of an indeterminate amount of ordinary shares of Hollysys Automation Technologies Ltd.

of our reports dated September 28, 2020, with respect to the consolidated financial statements of Hollysys Automation Technologies Ltd. and the effectiveness of internal control over financial reporting of Hollysys Automation Technologies Ltd. included in this Annual Report (Form 20-F) of Hollysys Automation Technologies Ltd. for the year ended June 30, 2020.

/s/ Ernst & Young Hua Ming LLP

Beijing, The People’s Republic of China

September 28, 2020