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Buyer Consortium Warns Hollysys Shareholders Not to Be Misled by Company's Continuing Incomplete Disclosure and Delaying Tactics

July 08, 2021 12:00 AM Eastern Daylight Time

BEIJING--(BUSINESS WIRE)--The buyer consortium (the "Consortium") consisting of Mr. Shao Baiqing, Ace Lead Profits Limited and CPE Funds Management Limited today issued a letter to shareholders of Hollysys Automation Technologies Ltd. (NASDAQ: HOLI) (the "Company" or "Hollysys") regarding the Consortium's proposed acquisition of the Company. The Consortium strongly believes that the proposed acquisition is the best and only option to shareholders to achieve immediate liquidity on their investment, at a highly attractive premium and with far greater certainty. The Consortium reminds shareholders of the Company as of June 24, 2021 to sign, date and return the WHITE consent card as soon as possible before July 22, 2021.

The full text of the Consortium's letter is as follows:

Dear Fellow Shareholder,

We, the buyer consortium (the "Consortium" or "we") consisting of Mr. Shao Baiqing, Ace Lead Profits Limited, and CPE Funds Management Limited would like to remind you to please **submit your consent** to our resolutions concerning the proposed acquisition (the "Proposed Acquisition") of all outstanding ordinary shares of the Company not already owned by the Consortium at a price of $17.10 per share in cash, **by following the instructions on the WHITE consent card**.

If you hold shares through a bank or broker (i.e., in "street-name" or as a "beneficial owner") and have not yet received the Consortium's consent materials by mail or email, please contact your bank or broker as soon as possible and request instructions regarding the WHITE consent card. If you are a record holder (i.e., you hold shares in your own name on the register of members of the Company), please promptly contact Innisfree M&A Incorporated ("Innisfree"), the firm assisting the Consortium with the consent solicitation, at the telephone number or email address below to request a copy of the WHITE consent card.

The Time for Action is NOW

We continue to note that five months have passed since the Consortium submitted the Proposed Acquisition on January 29, 2021 (see *here*). The Company's board of directors (the "Board") has not yet provided any updates on its alleged review, and yet has the temerity to continue to tell shareholders to take no action, even with respect to the recent launch of our consent solicitation.

As Shareholders Wait, Value Deteriorates

During the seven months since our initial acquisition proposal in December 2020, the value of your investment has decreased precipitously. The Company's operations and financial conditions have plummeted while the Board and management team have been using the Company's valuable resources to entrench and enrich themselves. The Company's cash-generating abilities have rapidly declined in the past three quarters – all while the overall economy in China has emerged from the COVID-19 pandemic with strong growth. These facts suggest that the Company is facing fundamental issues in its operations and will likely struggle with its core business activities over the long-term. Indeed, J.P. Morgan lowered its forecast of the Company's stock price to $15 per share in its analyst report dated March 30, 2021 and maintained its $15 per share forecast in its report dated May 14, 2021. The Company's stock price has lagged far below our $17.10 offer.

While the Company's most recent 6-K of July 6, 2021 attempts to project a positive outlook for its fiscal year 2021 ended June 30, 2021, the data is misleading on its face. The Company's projected revenue for fiscal year 2021 is approximately $560 million to $595 million, representing 11% to 18% growth over *fiscal year 2020* - a year when almost every business suffered. However, a comparison to the Company's *pre-pandemic* revenue of $570 million for the fiscal year 2019 reveals a **negative to flat growth rate of -1.8% to 4.4%.** Notably, the Company also conveniently omitted any profitability forecasts, such as net income, net cash generated by operating activities, or profitability margin. It is logical to infer that to the extent any minor growth in revenue is achieved, it will be at the expense of a declining margin and diminished overall market competitiveness.

Proposed Acquisition is the ONLY Feasible Way to Realize Immediate Liquidity at a Compelling Premium

More than five months have passed since the Company promised that the Board and management were "deeply committed to maximizing shareholder value and will thoroughly evaluate any opportunities or strategic alternatives that would advance that goal". To date, the Company has provided no disclosure of any "strategic alternatives" or any feasibility study. We believe, in fact, that – other than the Proposed Acquisition – there are no viable value-creating alternatives available to the Company. Shareholders should be advised that:

- Although the Company's PRC subsidiaries have significant cash in RMB sitting on its balance sheet, **the Company cannot effectively convert its RMB funds into foreign currencies and remit outside of China due to strict foreign exchange restrictions in China**. The Company is fully aware of those restrictions and its disclosures routinely describe the impact of PRC foreign exchange regulations on the Company's ability to obtain sufficient foreign currencies to satisfy its foreign currency demands, including paying dividends in foreign currencies to shareholders or using foreign currencies for purposes beyond its business scope, such as for investments in securities or other investments. **Therefore, typical strategic alternatives that may be available to a U.S.-listed company with sufficient offshore foreign currencies, such as transformative M&A acquisitions, share repurchases and significant dividends, are not available options to the Company.**

- Additionally, as the Company is merely a mid-cap company without sufficient size or float, a secondary listing in Hong Kong is not a feasible option either.

- Furthermore, any significant restructuring of the Company or its business with a hope to boost the Company's share price will involve numerous uncertainties and face daunting execution challenges in light of the dramatically changed, and fast shifting, regulatory environments in both the U.S. and China towards U.S.-listed high-tech companies with significant operations in China. National security concerns, risks of forced U.S. delisting and data protection issues, to name just a few, all weigh negatively on the prospect of the Company remaining publicly listed in the U.S. Recent regulatory crackdowns in China on similar U.S.-listed, Chinese high-tech companies, such as Didi and Boss Zhipin, reveal unprecedented, heightened compliance challenges and risks, which will have a lasting negative impact on the business and operations of the Company and its stock price.

The Consortium strongly believes that the Proposed Acquisition is the best and only option to shareholders to achieve immediate liquidity on their investment, at a highly attractive premium and with far greater certainty.

Act NOW to Protect Shareholders' Best Interests

We believe that absent swift and resolute action from shareholders, the Company's valuation will decline even further, and that the best path forward for all shareholders starts by consenting to the resolutions on the WHITE consent card before July 22, 2021. Submission of more than a majority of consents will not only provide a strong mandate to the Board to enter into a definitive merger agreement with the Consortium, but it will also limit the Board's power to exercise the rights under the Company's "poison pill," thereby allowing us to take our offer directly to shareholders by launching a tender offer if necessary.

Shareholders should also note that the Consortium's consent solicitation is independent and separate from the pending litigation between Mr. Shao Baiqing and Ace Lead Profits Limited on one hand, and the Company on the other hand. Such litigation relates to the legality of the extensive amendments to the Company's already extremely board-friendly charter documents, hastily adopted by the Board in January 2021, without shareholders approval. While succeeding in our litigation would be a governance victory for all shareholders, it is critical to push on all fronts and for shareholders to deliver a loud and clear message NOW about where shareholders truly stand with respect to the Proposed Acquisition. The Board and management team is clearly not able to understand what acting "in the best interests of shareholders" means – let shareholders decide that for themselves!

Shareholders with questions about how to submit consents and related matters should promptly contact Innisfree by email at HOLIconsent@innisfreema.com or by phone at +1 (877) 750-9501 (toll-free from the U.S. and Canada), or at +1 (412) 232-3651 (from other locations), during the hours of 10:00 a.m-7:00 p.m. Eastern Time, Monday-Friday, and 10:00 a.m.-2:00 p.m. Eastern Time on Saturdays. We ask you to please return your signed WHITE consent card to us **as soon as possible before July 22, 2021**.

Thank you for your support and prompt action!

Your sincerely,

Shao Baiqing
Ace Lead Profits Limited
CPE Funds Management Limited

Contacts

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