

HLS SYSTEMS INTERNATIONAL LTD
Form S-4
March 30, 2006

As filed with the Securities and Exchange Commission on March 29, 2006

Registration No. 333-_____

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

REGISTRATION STATEMENT
UNDER THE
SECURITIES ACT OF 1933
ON
FORM S-4

HLS Systems International Ltd.
(Exact name of registrant as specified in its charter)

British Virgin Islands
(State or other jurisdiction of
incorporation or organization)

6770
(Primary Standard
Industrial
Classification Code
Number)

Not Applicable
(I.R.S. Employer
Identification No.)

625 Broadway, Suite 1111
San Diego, California 92101
(619) 795-4627
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Li Zhang, Chief Executive Officer
625 Broadway, Suite 1111
San Diego, California 92101
(619) 795-4627
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Douglas J. Rein

Amy Hsiung
DLA Piper Rudnick Gray Cary US LLP
4365 Executive Drive, Suite 1100
San Diego, California 92121-2133
Telephone: (858) 677-1400
Fax: (858) 677-1401

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective and all other conditions to the merger contemplated by the Agreement and Plan of Merger described in the enclosed proxy statement/prospectus have been satisfied or waived.

If any of the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: "

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act., check the following box and list the Securities Act registration statement Number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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CALCULATION OF REGISTRATION FEE

Title of each Class of Security being registered	Amount being Registered	Proposed Maximum Offering Price Per Security(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Units, each consisting of one share of Common Stock, \$.0001 par value, and two Warrants (2)	5,750,000 Units	\$26.00	\$149,500,000	\$4,590
Shares of Common Stock included as part of the Units	5,750,000 Shares			(2)
Warrants included as part of the Units	11,500,000 Warrants			(2)
Shares of Common Stock underlying the Warrants included in the Units	11,500,000 Shares	\$5.00	\$57,500,000	\$1,766
(3)				
Shares of Common Stock	1,250,000 Shares	\$12.50(4)	\$15,625,000	\$480
Representative's Unit Purchase Option	1	\$100	\$100.00	(2)
Units underlying the Representative's Unit Purchase Option ("Underwriter's Units")(3)	250,000 Units	\$7.50	\$1,875,000	\$58
Shares of Common Stock included as part of the Underwriter's Units(3)	250,000 Shares			(2)
Warrants included as part of the Underwriter's Units(3)	500,000 Warrants			(2)
Shares of Common Stock underlying the Warrants included in the Underwriter's Units(3)	500,000 Shares	\$6.65	\$3,325,000	\$103
Total Fee Due				\$6,997

- (1) Based on the market price of the Units or exercise price for the purpose of calculating the registration fee pursuant to Rule 457(f)(1) and Rule 457(g)(1).
- (2) No fee pursuant to Rule 457(g).
- (3) Pursuant to Rule 416, there are also being registered such indeterminable additional securities as may be issued as a result of the anti-dilution provisions contained in the Warrants.
- (4) Based on the market price of a share of common stock on March 24, 2006.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Chardan North China Acquisition Corporation
625 Broadway, Suite 1111
San Diego, CA 92101

To the Stockholders of Chardan North China Acquisition Corporation:

You are cordially invited to attend a special meeting of the stockholders of Chardan North China Acquisition Corporation (“Chardan”), relating to its proposed purchase of the stock of Gifted Time Holdings, Ltd. (“HollySys Holdings”), a British Virgin Islands company, and related matters. The meeting will be held at _____ a.m., Pacific Time, on _____, 2006, at Chardan’s offices at 625 Broadway, Suite 1111, San Diego, California, 92101.

At this meeting, you will be asked to consider and vote upon the following proposals:

1. to approve a Stock Purchase Agreement, dated as of February 2, 2006 (“Purchase Agreement”) among Chardan and the stockholders of Gifted Time Holdings, Ltd., a holding company that owns or controls operating companies in the People’s Republic of China, known collectively as HollySys (the “HollySys Stockholders”) and the transactions contemplated thereby. The HollySys Stockholders have already approved the Purchase Agreement;
2. to approve the merger of Chardan with and into a wholly owned subsidiary formed under the laws of the British Virgin Islands, with the name HLS Systems International Ltd. (“HLS”) for the purposes of redomestication of our company to the British Virgin Islands (the “Redomestication Merger”) as part of the acquisition of HollySys; and
3. to approve the Chardan 2006 Equity Plan (“Stock Option Plan”);

If these proposals are approved:

- we will acquire an operating business in China;
- we will change our corporate domicile from the State of Delaware to the British Virgin Islands, which means we will be governed by the laws of the British Virgin Islands;
- we will change our corporate name to “HLS Systems International Ltd.” as a result of the Redomestication Merger;
 - the majority of our board of directors and officers will be the designee of the HollySys Stockholders;
- the HLS Memorandum of Association and the Articles of Association will become the equivalent of our certificate of incorporation and by-laws, respectively;
- each share of common stock of Chardan will automatically convert into one share of common stock of HLS; and
- each outstanding warrant of Chardan will be assumed by HLS with the same terms, but exercisable for common stock of HLS.

HLS will continue as a reporting company under the Securities Exchange Act of 1934, as amended, and intends to apply to have its units, common stock and warrants traded on the Nasdaq National Market concurrent with the consummation of the Redomestication Merger. HLS will be a foreign private issuer after the Redomestication Merger.

We will not consummate the transactions described under proposal 1 unless the Redomestication Merger in proposal 2 is also approved. Similarly, the Redomestication Merger will not take place if the Purchase Agreement is not

approved. The approval of the Stock Option Plan in proposal 3 is not a condition to consummation for the Purchase Agreement and the Redomestication Merger.

Pursuant to the Purchase Agreement, the HollySys Stockholders and their designees will be paid an aggregate of \$30,000,000 in cash and will receive an aggregate of 23,500,000 shares of HLS common stock as payment for all the outstanding common stock of HollySys. A variable portion of the cash payment (ranging from \$3,000,000 up to \$7,000,000), will be deferred until HollySys generates sufficient operating cash flow or HLS receives additional financing. The amount of the cash consideration that is deferred will depend on the number of shares that are redeemed by shareholders who vote against approval of the Purchase Agreement.

The initial cash payment will be made with the funds from the trust account with the balance of the trust account to be used by HLS for operating capital.

As additional consideration, the HollySys Stockholders and their designees will be issued up to an aggregate of 8,000,000 shares of common stock of HLS (2,000,000 per year on an all-or-one basis) for each of the four fiscal years beginning with fiscal 2007 if, on a consolidated basis, HLS generates after-tax profits (excluding after-tax operating profits from any subsequent acquisitions of securities that have a dilutive effect) of at least the following amounts:

Year ending June 30,	After-Tax Profit
2007	\$23,000,000
2008	\$32,000,000
2009	\$43,000,000
2010	\$61,000,000

The affirmative vote of the holders of a majority of the outstanding shares of Chardan common stock is required to approve each of the Purchase Agreement and the Redomestication Merger. The approval of the Purchase Agreement is subject to an additional condition, that no more than 20% of the shares issued in Chardan's initial public offering (the "Public Shares") both vote against the approval of the Purchase Agreement and are redeemed for their pro rata share of the trust fund, as described in the next paragraph. The affirmative vote of holders of a majority of the shares represented and entitled to vote at the meeting is required for approval of the Stock Option Plan.

Each Chardan stockholder who holds shares of common stock issued in Chardan's initial public offering has the right to vote against the stock purchase proposal, and any who vote against it may also demand that Chardan redeem such stockholder's shares for cash equal to a pro rata portion of the funds held in the trust account into which a substantial portion of the net proceeds of Chardan's initial public offering was deposited. These shares will be redeemed only if the Purchase Agreement is consummated. However, if the holders of 1,150,000 or more shares of common stock issued in Chardan's initial public offering both vote against the stock purchase proposal and demand conversion of their shares, then Chardan will not consummate the Purchase Agreement. Chardan's initial stockholders who purchased their shares of common stock prior to its initial public offering and presently own an aggregate of approximately 17.8% of the outstanding shares of Chardan common stock, have agreed to vote all of their shares on the Purchase Agreement and Redomestication Merger proposals as the majority of the Public Shares are voted. Chardan's initial stockholders do not have the right to redeem their stock.

Immediately after consummation of the Purchase Agreement, if no holder of Public Shares demands that Chardan convert these shares into a pro rata portion of the trust account, Chardan stockholders will own approximately 23% of HLS's issued and outstanding shares of common stock. If one or more holders of the Public Shares vote against the stock purchase proposal and demand that Chardan convert their shares into a pro rata portion of the trust account, then Chardan's stockholders will own less than approximately 23% of HLS's issued and outstanding shares of common stock.

Chardan's shares of common stock, warrants and units currently are listed on the Over-the-Counter Bulletin Board under the symbols CNCA, CNCAW and CNCAU, respectively. Chardan intends to apply for listing on the Nasdaq National Market effective on the consummation of the Redomestication Merger under the proposed symbols HLSS, HLSSW and HLSSU. If the securities are not listed on Nasdaq, they will continue to trade on the OTCBB.

After careful consideration of the terms and conditions of the proposed Purchase Agreement, the Redomestication Merger and the Stock Option Plan, the board of directors of Chardan has determined that the Purchase Agreement and the transactions contemplated thereby, the Redomestication Merger and the Stock Option Plan are fair to and in the best interests of Chardan and its stockholders. The board of directors of Chardan did not obtain a fairness opinion on which to base this assessment. The board of directors of Chardan unanimously recommends that you vote or give

instruction to vote "FOR" the approval of the Purchase Agreement, the Redomestication Merger and the Stock Option Plan.

Enclosed is a notice of special meeting and proxy statement containing detailed information concerning the Purchase Agreement and the transactions contemplated thereby, the Redomestication Merger and the Stock Option Plan. Whether or not you plan to attend the special meeting, we urge you to read this material carefully.

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Your vote is important. Whether you plan to attend the special meeting or not, please indicate your votes, sign, date and return the enclosed proxy card as soon as possible in the envelope provided.

I look forward to seeing you at the meeting.

Sincerely,

Richard D. Propper, MD
Chairman of the Board

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**Chardan North China Acquisition Corporation
625 Broadway, Suite 1111
San Diego, CA 92101**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON _____, 2006**

TO ALL THE STOCKHOLDERS OF CHARDAN NORTH CHINA ACQUISITION CORPORATION

NOTICE IS HEREBY GIVEN that a special meeting of stockholders, including any adjournments or postponements thereof, of Chardan North China Acquisition Corporation (“Chardan”), a Delaware corporation, will be held _____ a.m. Pacific time, on _____, 2006, at Chardan’s offices at 625 Broadway, Suite 1111, San Diego, California, 92101 for the following purposes:

- To consider and vote upon a proposal to adopt the Stock Purchase Agreement, dated as of February 2, 2006, among Chardan, and the stockholders of a holding company known as Gifted Times Holding Limited (“HollySys Holdings”), a British Virgin Islands company that owns or controls operating companies (known as “HollySys”) in the People’s Republic of China, and the transactions contemplated thereby;
- To consider and vote upon the merger of Chardan into its wholly owned subsidiary HLS Systems International Ltd. (“HLS”), formed under the laws of the British Virgin Islands, for the purposes of reincorporation and redomestication of Chardan to the British Virgin Islands (the “Redomestication Merger”); and

· To consider and vote upon a proposal to adopt the Chardan 2006 Equity Plan.

The board of directors has fixed the close of business on _____, 2006 as the record date for which Chardan stockholders are entitled to receive notice of, and to vote at, the Chardan special meeting and any adjournments thereof. Only the holders of record of Chardan common stock on that date are entitled to have their votes counted at the Chardan special meeting and any adjournments or postponements of that meeting.

Chardan will not transact any other business at the special meeting, except for business properly brought before the special meeting (or any adjournment or postponement of the meeting) by Chardan’s board of directors.

Your vote is important. Please indicate your votes on, sign, date and return your proxy card as soon as possible to make sure that your shares are represented at the special meeting. If you are a stockholder of record of Chardan common stock, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct your broker or bank on how to vote your shares. If you do not vote or do not instruct your broker or bank how to vote, it will have the same effect as voting against the stock purchase agreement and the Redomestication Merger.

The board of directors of Chardan unanimously recommends that you vote “FOR” the approval of the stock purchase agreement, the Redomestication Merger and the stock option plan.

By Order of the Board of Directors,
Richard D. Propper, MD
Chairman of the Board

_____, 2006

**PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS OF
CHARDAN NORTH CHINA ACQUISITION CORPORATION**

PROSPECTUS FOR UP TO 6,000,000 UNITS, 19,250,000 SHARES OF COMMON STOCK, AND
12,000,000 WARRANTS OF HLS AND ONE REPRESENTATIVE UNIT PURCHASE OPTION

The board of directors of Chardan North China Acquisition Corporation (“Chardan”) and its wholly-owned subsidiary, HLS Systems International Ltd. (“HLS”) have unanimously approved the acquisition of the shares of Gifted Time Holdings, Ltd., a holding company (“HollySys Holdings”) that owns or controls operating companies (known as “HollySys”) in the People’s Republic of China, pursuant to a stock purchase agreement whereby Chardan will purchase all of the outstanding securities of HollySys Holdings held by the stockholders (the “HollySys Stockholders”). The board of directors of Chardan also has unanimously approved the simultaneous reincorporation of Chardan from the State of Delaware to the British Virgin Islands, through a Redomestication Merger with HLS.

In the Redomestication Merger, HLS will issue its securities in exchange for the outstanding securities of Chardan. This prospectus covers an aggregate of 6,000,000 units, 19,250,000 shares of common stock, 12,000,000 warrants and one representative unit purchase option. The common stock and warrants issuable upon exercise of the aforementioned securities are included in the aggregate amounts stated above. HLS will issue its securities on the same terms as the equivalent securities had been issued by Chardan.

Chardan was organized to serve as a vehicle for the acquisition of an operating business that has its primary operating facilities based in the Peoples Republic of China in any city or province north of the Yangtze River. HollySys Holdings, through its Chinese operating companies, is a leader in the automation and controls industry in China.

Chardan’s common stock, warrants and units are currently listed on the Over-the-Counter Bulletin Board under the symbols CNCA, CNCAW and CNCAU, respectively. HLS intends to apply to have its securities listed on the Nasdaq National Market effective at the time of the Redomestication Merger. The proposed symbols are HLSS, HLSSW and HLSSU.

This proxy statement/prospectus provides you with detailed information about the acquisition of HollySys and Redomestication Merger and the special meeting of stockholders. We encourage you to read this entire document and the documents incorporated by reference carefully. **YOU SHOULD ALSO CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 30.**

The acquisition of HollySys and Redomestication Merger will be completed upon approval of at least a majority of the shares of common stock outstanding present in person or by proxy and entitled to vote at the special meeting on _____, 2006.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS PROXY STATEMENT/PROSPECTUS IS DATED _____, 2006, AND IS FIRST BEING MAILED TO CHARDAN STOCKHOLDERS ON OR ABOUT _____, 2006.

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ANNEXES

- A—Stock Purchase Agreement
- B—Form of HLS Memorandum of Association, including all amendments
- C—Form of HLS Articles of Association
- D—The Chardan 2006 Equity Plan
- E—HLS Audit Committee Charter
- F—HLS Nominating Committee Charter
- G—HLS Code of Ethics
- H—Section 262 of the Delaware General Business Law

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This proxy statement/prospectus incorporates important business and financial information about Chardan, HollySys and the HollySys Operating Companies that is not included in or delivered with the document. This information is available without charge to security holders upon written or oral request. The request should be sent to:

**Dr. Richard Propper
c/o Chardan North China Acquisition Corporation
625 Broadway, Suite 1111
San Diego, California 92101
(619) 795-4627**

To obtain timely delivery of requested materials, security holders must request the information no later than five business days before the date they submit their proxies or attend the special meeting. The latest date to request the information to be received timely is _____, 2006.

The financial statements of HollySys are prepared using Renminbi, the currency of the Peoples Republic of China (“PRC”). For convenience, the Renminbi amounts have been converted throughout the text of the proxy statement/prospectus into United States dollars. Until recently, the Renminbi was a controlled currency, and the exchange rate maintained by the PRC was approximately 8.11 Renminbi to one United States dollar. The Chinese government has recently altered its policy toward the rate of exchange of the Renminbi versus the US dollar. Changing from a previously fixed rate policy regarding the dollar, the Renminbi has recently been permitted to float within a fixed range against a basket of currencies, including the US dollar, Japanese Yen and European Euro, which has resulted in the Renminbi being allowed to appreciate 2% +/- 0.3% vs. the dollar. Since the company’s business is presently 100 percent domestic within PRC, this change will have no effect on the company’s business, but may result in a concomitant increase in its after-tax earnings when stated in dollar terms. In the future, the company’s earnings stated in US dollars will fluctuate in accordance with the change in exchange rate.

Under the law of the British Virgin Islands, HLS is authorized to issue “ordinary shares” and holders of ordinary shares are “members.” References to ordinary shares and members have been translated to common stock and stockholders, which are terms more familiar to United States persons, whom Chardan believes are the majority of its stockholders.

QUESTIONS AND ANSWERS ABOUT THE MEETING

Q. Why is Chardan proposing the stock purchase?

A. Chardan was organized to effect a business combination with an operating business that has its primary operating facilities located in the People's Republic of China in any city or province north of the Yangtze River. The operating companies of HollySys, after the consummation of the stock purchase will be Beijing HollySys Co., Ltd., Hangzhou HollySys Automation Co., Ltd., and Beijing HollySys Haotong Science & Technology Development Co., Ltd. (these three companies are referred to as the "HollySys Operating Companies"). Together they are one of the leading automation and control systems companies in China. The HollySys Operating Companies have, collectively, demonstrated significant growth since commencing operations in 1993. Chardan believes that the HollySys Operating Companies are in a position to expand their business through the development of additional products and the expansion of their customer base, including entry into the international market. As a result, Chardan believes that a business combination with HollySys will provide Chardan stockholders with an opportunity to participate in a combined company with significant growth potential.

Q. Why is Chardan proposing the Redomestication Merger?

A. Chardan is proposing the reincorporation of itself into a company formed under the laws of the British Virgin Islands to align its income tax liabilities with the location of its activities to reduce the overall impact of corporate income tax on the surviving company and its stockholders. Because the future operations will be almost exclusively outside the United States, the Redomestication Merger is intended to reduce or entirely eliminate the income tax liability of the company in the United States and permit greater flexibility in structuring acquisitions or creating subsidiaries in China and other countries as the business of HollySys expands as well as with regard to declaring dividends, should the company wish to do so in the future. By becoming a non-United States company, Chardan believes that the successor company will only be taxed on its operations by the jurisdiction in which they are located and undertaken, and will not be subject to additional income taxes merely by virtue of the location of its place of incorporation.

Q. Why is Chardan proposing the stock option plan?

A. Chardan is proposing the stock option plan to enable the company to attract, retain and reward its directors, officers, employees and consultants using equity-based incentives.

Q. What is being voted on?

A. There are three proposals that you are being asked to vote on. The first proposal is to adopt the stock purchase agreement, dated February 2, 2006 and the transactions contemplated thereby. We refer to this proposal as the stock purchase proposal.

The second proposal is to approve the merger of Chardan with and into HLS for purposes of redomestication to the British Virgin Islands. We refer to this proposal as the Redomestication Merger proposal.

The third proposal is to adopt Chardan's 2006 Equity Plan. We refer to this proposal as the stock option plan proposal.

- Q. What vote is required in order to adopt the stock purchase proposal?
- A. The approval of the stock purchase will require the affirmative vote of a majority of the outstanding shares of Chardan's common stock. If the holders of 1,150,000 or more shares of common stock issued in Chardan's initial public offering vote against the stock purchase and demand that Chardan convert their shares into a pro rata portion of the trust account as of the record date, then the stock purchase will not be consummated. No vote of the holders of Chardan's warrants is necessary to adopt the stock purchase proposal or other proposals, and Chardan is not asking the warrant holders to vote on the stock purchase proposal or the other proposals. Chardan will not consummate the transaction described in the stock purchase proposal unless the Redomestication Merger is also approved. Similarly, the Redomestication Merger will not be consummated if the stock purchase proposal is not approved. The approval of the stock option plan proposal is not a condition to the consummation of the stock purchase or Redomestication Merger proposals.
- Q. What vote is required in order to adopt the Redomestication Merger?
- A. The affirmative vote of the holders of a majority of the outstanding shares of Chardan common stock is required to approve the Redomestication Merger proposal.
- Q. What vote is required in order to adopt the stock option plan?
- A. The approval of the stock option plan will require the affirmative vote of a majority of the shares represented and entitled to vote at the meeting. The approval of the stock option plan is not a condition to the approval of the stock purchase or the Redomestication Merger proposals.
- Q. How do the Chardan insiders intend to vote their shares?
- A. All of the insiders who purchased their shares prior to the initial public offering (including the officers and directors of Chardan) have agreed to vote the shares held by them on the stock purchase and Redomestication Merger proposals in accordance with the vote of the majority of the shares of common stock issued in Chardan's initial public offering. They have indicated that they also will vote in favor of the stock option plan proposal.
- Q. What will I receive in the Redomestication Merger?
- A. Chardan security holders will receive an equal number of shares of common stock of HLS in exchange for their Chardan common stock, and HLS will assume the outstanding Chardan warrants, the terms and conditions of which will not change, except that on exercise, they will receive HLS common stock.
- Q. How will the Redomestication Merger be accomplished?
- A. Chardan will merge into HLS, Chardan's wholly owned subsidiary that is incorporated as a British Virgin Islands company. As a result of the Redomestication Merger, each currently issued outstanding share of common stock of Chardan will automatically convert into a share of common stock of HLS. This procedure will result in your becoming a stockholder in HLS instead of Chardan.
- Q. Will the Chardan stockholders be taxed as a result of the Redomestication Merger?
- A. Generally for United States federal income tax purposes, stockholders who are United States holders should not recognize any gain or loss as a result of the Redomestication Merger. We urge you to consult your own tax advisors with regard to your particular tax consequences of the Redomestication Merger.
- Q. Will Chardan be taxed on the Redomestication Merger?
- A. Chardan will recognize gain, but not loss, as a result of the Redomestication Merger equal to the difference, if any, between the adjusted tax basis of any Chardan asset and such asset's fair market value at the effective time of the Redomestication Merger.

- Q. How much of the surviving company will existing Chardan stockholders own?
- A. The HollySys Stockholders and their designees initially will receive 23,500,000 shares of common stock of HLS, representing 77% of the issued and outstanding shares immediately after the acquisition. After the stock purchase, if no Chardan stockholders demand that Chardan convert their shares into a pro rata portion of the trust account and no Chardan stockholder exercises its appraisal rights, then Chardan's stockholders who own shares immediately prior to the stock purchase will own approximately 23% of the outstanding common stock of HLS. Existing Chardan stockholders could own less than approximately 23% if one or more Chardan stockholders vote against the stock purchase proposal and demand conversion of their shares into a pro rata portion of the trust account or if they exercise appraisal rights. Similarly, existing Chardan stockholders will own less than 23% of HLS, if HLS issues (as additional consideration) the additional shares to the HollySys Stockholders or their designees by reason of the HLS achieving the after-tax profit targets specified in the stock purchase agreement for one or more of the four fiscal years beginning with fiscal 2007.
- Q. How much dilution will I experience?
- A. Currently there are 7,000,000 shares of common stock of Chardan outstanding. At least 23,500,000 additional shares will be issued for acquisition of HollySys. Therefore, current shareholders will own approximately 23% of the company, which is a dilution of absolute ownership of 77%. To the extent shares representing additional consideration are issued to the HollySys Stockholders upon achieving one or more of the after-tax profit targets and outstanding warrants are exercised, the current stockholders will experience further dilution of their ownership interest in the company.
- Q. What will the name of the surviving company be after the stock purchase?
- A. The name of the surviving company following completion of the stock purchase and Redomestication Merger will be "HLS Systems International Ltd."
- Q. Do I have conversion rights?
- A. If you hold shares of common stock issued in Chardan's initial public offering, then you have the right to vote against the stock purchase proposal and demand that Chardan convert these shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Chardan's initial public offering are held. We sometimes refer to these rights to vote against the stock purchase and demand conversion of the shares into a pro rata portion of the trust account as conversion rights.
- Q. If I have conversion rights, how do I exercise them?
- A. If you wish to exercise your conversion rights, you must vote against the stock purchase proposal and at the same time demand that Chardan convert your shares into cash. If, notwithstanding your vote, the stock purchase is completed, then you will be entitled to receive a pro rata portion of the trust account, including any interest earned thereon through the record date. You will be entitled to convert each share of common stock that you hold into approximately \$[_____]. If you exercise your conversion rights, then you will be exchanging your shares of Chardan common stock for cash and will no longer own these shares. You will be entitled to receive cash for these shares only if you continue to hold these shares through the closing of the stock purchase and then tender your stock certificate. If the stock purchase is not completed, then your shares cannot be converted to cash until either you vote against a subsequently proposed combination and exercise your conversion rights or unless Chardan fails to achieve a business

combination in a timely manner, at which time your shares will be automatically converted to cash.

- Q. What happens to the funds deposited in the trust account after consummation of the stock purchase?
- A. Upon consummation of the stock purchase: the stockholders electing to exercise their conversion rights will receive their pro rata portion of the funds in the trust account; up to \$27,000,000 of the funds in the trust account will be paid to the HollySys Stockholders as part of the stock purchase consideration; and any balance of the funds in the trust account will be retained by HLS for operating capital subsequent to the closing of the business combination and for potential use to pay the deferred purchase price.
- Q. Who will manage the combined company?
- A. The combined company will be managed by the current management of HollySys. Dr. Wang Changli, who is currently the chief executive officer of HollySys, will become the chief executive officer and a director of HLS. Madame Qiao Li, who is currently the Chairman of HollySys, will be a director and chairman of the HLS board of directors. Kerry S. Propper, who is currently the chief financial officer, secretary, and a director of Chardan, and Mr. Sun Dongying will also become directors of HLS. There will be five additional directors.
- Q. Do I have dissenter or appraisal rights?
- A. In connection with the Redomestication Merger, the Chardan stockholders have appraisal rights under Delaware corporate law.
- Q. What happens if the stock purchase is not consummated?
- A. If the stock purchase is not consummated, Chardan will continue to search for an operating company to acquire. However, Chardan will be liquidated if it does not consummate a business combination by February 10, 2007, unless a letter of intent, agreement in principle or definitive agreement has been executed by February 10, 2007, in which case, Chardan will be liquidated if it does not consummate such business combination by August 10, 2007. In any liquidation, the funds held in the trust account, plus any interest earned thereon, together with any remaining net assets outside of the trust, will be distributed pro rata to Chardan's common stockholders, excluding the Chardan initial stockholders, each of whom has waived any right to any liquidation distribution.
- Q. When do you expect the stock purchase to be completed?
- A. Pending receipt of the required stockholder approvals, it is currently anticipated that the stock purchase will be completed promptly following the Chardan special meeting on _____, 2006.
- Q. If I am not going to attend the Chardan special meeting in person, should I return my proxy card instead?
- A. Yes. After carefully reading and considering the information contained in this proxy statement/prospectus, please fill out and sign your proxy card. Then return the enclosed proxy card in the return envelope as soon as possible, so that your shares may be represented at the Chardan special meeting.
- Q. What will happen if I abstain from voting or fail to vote?
- A. An abstention or failure to vote will have the same effect as a vote against the stock purchase proposal, but will not have the effect of converting your shares into a pro rata portion of the trust account. An abstention or failure to vote will also have the effect of voting against the Redomestication Merger, but will have no effect on the approval of the stock option plan.
- Q. What do I do if I want to change my vote?
- A. Send a later-dated, signed proxy card to Chardan's secretary prior to the date of the special meeting or attend the special meeting in person and vote. You also may revoke your proxy by sending a notice of revocation to Chardan's secretary at the address of Chardan's corporate headquarters.
- Q. If my shares are held in "street name" by my broker, will my broker vote my shares
- A. No. Your broker can vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares, following the directions provided by your broker.

for me?

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- Q. Do I need to turn in my old certificates? A. No. If you hold your securities in Chardan in certificate form, as opposed to holding them through your broker, you do not need to exchange them for certificates issued by HLS. Your current certificates will represent your rights in HLS. You may exchange them by contacting the transfer agent, Continental Stock Transfer & Trust Company, Reorganization Department, and following their requirements for reissuance. If you elect conversion or appraisal, you will need to deliver your old certificate to Chardan.
- Q. Who can help answer my questions? A. If you have questions about the stock purchase, you may write or call Chardan North China Acquisition Corporation, 625 Broadway, Suite 1111, San Diego, CA 92101. The phone number is (619) 795-4627.

Enforceability of Civil Liabilities Against Foreign Persons

HollySys Holdings is incorporated under the laws of the British Virgin Islands, and its operating companies are incorporated under the laws of the PRC and operate only in the PRC. Substantially all of the assets of HollySys and its Chinese operating companies will be located in the PRC, and the majority of its officers and directors and the experts named in this joint proxy/prospectus are outside the United States. Although China and the United States are signatories to the 1965 Hague Convention on the Service Abroad of Judicial and Extra Judicial Documents in Civil and Commercial Matters, service under this treaty is cumbersome and time consuming and may not result in adequate notice, such that any judgment based on service thereunder may be reopened, relitigated and overturned. Therefore, an investor should understand it is not likely that service of process upon the company or its subsidiaries, its officers and directors, its assets and experts will be obtainable within the United States or for actions originating in the United States.

It will be difficult for investors to enforce outside the United States a judgment against HLS or its Chinese operating companies or its assets obtained in the United States in any actions, including actions predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any State of the United States. In addition, the directors and executive officers and certain of the experts named in this joint proxy/prospectus are resident outside the United States, and all or a substantial portion of the assets of these persons are or may be located outside the United States. Therefore, it may not be possible for investors to effect service of process within the United States upon them, or to enforce against them any judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States.

The difficulty of enforcing a judgment of a United States court in the PRC where most of the assets of the company are located and which is the residence of most of the directors and officers of the company, stems from the lack of any official arrangement providing for judicial assistance to the enforcement of judgments of courts of the United States in the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States. In the absence of such a treaty, judgments of United States courts will not be enforced in the PRC without review of the merits of the claims and the claims brought in the original action in the United States court will have to be re-litigated on their merits.

Likewise, administrative actions brought by regulatory authorities, such as the SEC, and other actions that result in foreign court judgments, could (assuming such actions are not required by PRC law to be arbitrated) only be enforced in the PRC if such judgments or rulings do not violate the basic principles of the law of the PRC or the sovereignty, security and public interest of the society of China, as determined by a People's Court of China that has jurisdiction for recognition and enforcement of judgments.

We have been advised that there is doubt as to the enforceability in the PRC of any actions to enforce judgments of United States or British Virgin Islands courts arising out of or based on the ownership of the securities of HLS, including judgments arising out of or based on the civil liability provisions of United States federal or state securities

laws, and as to whether PRC courts would enforce, in original actions, judgments against HLS, its directors and officers and assets in the PRC predicated solely upon the federal securities laws of the United States. An original action may be brought in the PRC against HLS or its subsidiaries or its directors and officers and experts named in this prospectus/proxy statement only if the actions are not required to be arbitrated by PRC law and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with such an original action, a PRC court may award civil liability, including monetary damages.

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SUMMARY

Summary

This section summarizes material items related to the proposals to be voted on. These items are described in greater detail elsewhere in this proxy statement/prospectus. You should carefully read this proxy statement/prospectus and the other documents to which this proxy statement/prospectus refers you. See “Where You Can Find More Information.”

The Companies

Chardan

Chardan is a blank check company organized as a corporation under the laws of the State of Delaware on March 10, 2005. Chardan was formed to effect a business combination with an unidentified operating business that has its primary operating facilities located in the People’s Republic of China in any city or province north of Yangtze River. In August 2005, Chardan successfully consummated an initial public offering of its equity securities from which it derived net proceeds of approximately \$30.9 million. The prices of Chardan’s common stock, warrants to purchase common stock and units (each unit consisting of one share of common stock and two warrants to purchase common stock) are quoted on the Over-the-Counter Bulletin Board under the symbols CNCA for the common stock, CNCAW for the warrants and CNCAU for the units. Approximately \$29.8 million of the net proceeds of the initial public offering was placed in a trust account and will be released to Chardan upon consummation of the stock purchase, subject to the exercise of conversion rights by holders of less than 20% of the Chardan stock issued in the initial public offering. The balance of the net proceeds from the initial public offering of approximately \$1.1 million has been used by, or is available to, Chardan to pay the expenses incurred in its pursuit of a business combination. Through September 30, 2005, Chardan had incurred a total of approximately \$146,000 in expenses. The most significant expenses incurred to date include approximately \$67,000 for consultants to Chardan who have assisted with due diligence reviews of business combination targets, approximately \$30,000 in travel expenses, office expenses of \$15,000 payable to Chardan Ventures LLC, and premiums for general and officer and director insurance of approximately \$11,000. Other than its initial public offering and the pursuit of a business combination, Chardan has not engaged in any business to date. If Chardan does not consummate a business combination by February 10, 2007 (or, if a letter of intent, an agreement in principle or a definitive agreement to complete a business combination has been executed but not consummated by February 10, 2007, by August 10, 2007), then, pursuant to its certificate of incorporation, Chardan’s officers must take all actions necessary to dissolve and liquidate Chardan within 60 days.

The mailing address of Chardan’s principal executive office is Chardan North China Acquisition Corporation, 625 Broadway, Suite 1111, San Diego, California 92101, and its telephone number is (619) 795-4627.

HollySys Holdings

HollySys Holdings was established under the laws of the British Virgin Islands on September 21, 2005. On September 20, 2005, the stockholders of HollySys Holdings entered into a reorganization agreement to put 74.11% of the equity interests in Beijing HollySys and 60% of the equity interests in Hangzhou HollySys into HollySys Holdings, effective June 30, 2005 for financial reporting purpose. Subsequently, the stockholders of HollySys Holding amended the reorganization agreement on December 30, 2005 due to the withdraw of one investor in Beijing HollySys who originally intended to acquire additional 20% interest in Hangzhou Hollysys but was not able to consummate this transaction. The stockholders of Beijing HollySys and Hangzhou HollySys formed respective British Virgin Islands companies to hold their equity interest in Beijing HollySys and Hangzhou HollySys. HollySys Holdings entered into consignment agreements with these British Virgin Islands companies, respectively, to obtain these individual stockholders’ equity interests in Beijing HollySys. HollySys Holdings also entered into share transfer agreements with two foreign investors in Hangzhou HollySys to obtain their equity interests in Hangzhou HollySys. HollySys

Holdings itself does not engage in any operations.

The three HollySys Operating Companies are Beijing HollySys Co., Ltd., Hangzhou HollySys Automation Co., Ltd. and Beijing HollySys Haotong Science & Technology Development Co., Ltd. The three HollySys Operating Companies are organized and exist under the laws of the PRC. The HollySys Operating Companies conduct various business operations, which include development, sale and service of automation and control systems and components in China. The businesses of the HollySys Operating Companies began in 1993.

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In accordance with the Chinese corporation law, which was effective July 1, 1994 and was abolished on December 31, 2005, the directors and corporate officers of a joint stock company may not transfer the shares they hold during their incumbency. The amendment of the Chinese corporation law, which was effective January 1, 2006, prohibits directors or corporate officers of a joint stock company from transferring the ownership of more than 25% of the shares they own annually during their incumbency. However, it is permissible for record owners of a Chinese corporation, who are subject to that restriction on transfer of their stock, to consign to another all the equity interests and control of their stock while retaining only title. This includes the consignment of the record owner's voting, dispositive, dividend, meeting calling, proposal submission and other rights, so that the consignee is for all intents and purposes the functional owner, except for record ownership.

As the deputy chairman of the board and CEO of Beijing HollySys, Dr. Wang Changli consigned his equity interests in Beijing HollySys Stock to HollySys Holdings through a BVI company. The other stockholders (other than Team and OSCAF) in Beijing HollySys, who were also the parties who had entered into the voting-together agreements with Dr. Wang, consigned their equity interests in Beijing HollySys stock to HollySys Holdings through their respective BVI companies.

After the reorganization effective June 30, 2005, HollySys Holdings held 60% of the ownership interests in Hangzhou HollySys and 74.11% equity interest in Beijing HollySys, respectively. Since the Chinese corporation law has no restriction on transferring ownership of the shares held by directors and corporate officers of a limited liability company, the restriction on the equity interest held by Dr. Wang in Beijing HollySys will expire once Beijing HollySys has been changed from a joint stock company to a limited liability company. It is expected that the process of changing from a joint stock company to a limited liability company will be initiated by the stockholders of Beijing HollySys shortly after the closing of this stock purchase transaction. This change may take up to six months to complete, depending on the process of obtaining government registration.

Counsel for the HollySys Parties has opined that the consignment agreements are valid and enforceable under the laws of the PRC so as to give HollySys Holdings the equity interests and control of 74.11% of the issued and outstanding stock of Beijing HollySys.

For the years ended June 30, 2004 and 2005, HollySys generated approximately \$53.1 million and approximately \$79.6 million in revenue, respectively, principally from its sales of automation systems and equipment to Chinese customers in the power generation and heavy industry sectors.

The HollySys Operating Companies introduced their new platform technology in 2004, HOLLiAS. This platform consists of several modules, each of which can deliver a range of functions independently or can be integrated into an enterprise wide automation and control system. The components of the system were designed to enable HollySys to participate effectively in the most actively growing sectors of the Chinese economy, including general industrial activity, nuclear and fossil fuel power generation, rail transportation and emerging Chinese industries, such as pharmaceutical manufacture and food processing. HollySys also anticipates entering international markets, based on what it perceives to be products that are comparable to those of other automation companies but selling at prices that will give it a competitive advantage.

The current management of the HollySys Operating Companies is led by Dr. Wang Changli, who will become the chief executive officer of HLS and will continue to operate the HollySys Operating Companies. Dr. Wang and Madame Qiao Li, the current chairman of HollySys, will become two of the nine-person board of directors of HLS. Kerry Propper, a current director and officer of Chardan, and Mr. Sun Dongying also will become directors of HLS. The remaining five director positions will be filled by persons selected by the existing directors, with consideration being given to meeting the requirements of having directors who are both independent and financially literate.

The mailing address of HollySys' principal executive offices is 19 Jiancaicheng Middle Road, Xisangi, Haidian District, Beijing China 100096, and its telephone number is (86) 10-82922200.

The Business Combination

The stock purchase agreement provides for Chardan to form a wholly owned subsidiary under the laws of the British Virgin Islands, under the name “HLS Systems International Limited” (“HLS”). At the time of closing of the stock purchase agreement, Chardan will merge with and into HLS for the purpose of redomestication out of the United States to secure future tax benefits and greater corporate flexibility to structure the business of HollySys within China and effect acquisitions and reorganizations under Chinese law. Simultaneously with the Redomestication Merger, HLS will acquire all of the issued and outstanding stock of HollySys Holdings, gaining control of the three HollySys Operating Companies pursuant to existing stock consignment agreements, dated December 30, 2005, and share transfer agreements dated January 12, 2006 between HollySys Holdings and the stockholders of the HollySys Operating Companies. Following consummation of the stock purchase agreement and the Redomestication Merger, HollySys Holdings will continue as the surviving company and owner of the stated interests in the HollySys Operating Companies. Pursuant to the Redomestication Merger, all of the Chardan common stock held by Chardan’s stockholders will be converted into common stock in HLS on a one-to-one basis and the outstanding warrants issued by Chardan will be assumed by HLS.

Under the stock purchase agreement, the HollySys Stockholders and their designees will be paid an aggregate of \$30,000,000 in cash and will receive an aggregate of 23,500,000 shares of HLS common stock for all the outstanding common stock of HollySys Holdings. Chardan will defer paying a portion of the cash payment (at least \$3 million, and possibly as much as \$7 million, depending on the amount of funds remaining in the trust account in the event that any of Chardan’s stockholders exercise their conversion rights) until HLS generates positive cash flow of at least twice the deferred amount or HLS receives at least \$60 million of additional financing.

As additional consideration, the HollySys Stockholders and their designees will be issued an aggregate of 2,000,000 shares of common stock of HLS for each of the next four years if, on a consolidated basis, HLS generates after-tax profits (excluding after-tax operating profits from any subsequent acquisitions of securities that have a dilutive effect) of at least the following amounts:

Year ending June 30,	After-Tax Profit
2007	\$23,000,000
2008	\$32,000,000
2009	\$43,000,000
2010	\$61,000,000

Chardan and the HollySys Stockholders plan to complete the stock purchase promptly after the Chardan special meeting, provided that:

- Chardan’s stockholders have approved the stock purchase agreement and the Redomestication Merger proposals;
- holders of less than 20% of the shares of common stock issued in Chardan’s initial public offering vote against the stock purchase proposal and demand conversion of their shares into cash; and
- the other conditions specified in the stock purchase agreement have been satisfied or waived.

The Stock Purchase Agreement

The stock purchase agreement is included as an annex to this proxy statement/prospectus. We encourage you to read the stock purchase agreement. It is the legal document that governs the stock purchase and the other transactions contemplated by the stock purchase agreement. It is also described in detail elsewhere in this proxy statement/prospectus.

The Chardan Stock Option Plan

The stock option plan reserves 3,000,000 shares of Chardan common stock for issuance in accordance with the plan’s terms. Chardan does not intend to grant any options or other awards under this plan; instead, the plan will be available for use by the Board of Directors of HLS following the Redomestication Merger. The purpose of the stock option plan is to enable Chardan (or HLS following the Redomestication Merger) to offer its employees, officers, directors and consultants whose past, present and/or potential contributions have been, are or will be important to the success of the company, an opportunity to acquire a proprietary interest in Chardan (or HLS). The various types of awards that may be provided under the stock option plan will enable Chardan to respond to changes in compensation practices, tax laws, accounting regulations and the size and diversity of its business. Upon the Redomestication Merger, HLS will assume the plan and it will be administered by the board of directors of HLS using the common stock of HLS instead of Chardan common stock.

The stock option plan is included as an annex to this proxy statement/prospectus. We encourage you to read the stock option plan in its entirety.

Management

After the consummation of the stock purchase and of the Redomestication Merger, the board of directors of the surviving corporation will be Dr. Wang Changli, Madame Qiao Li, Kerry S. Propper, Sun Dongying, and five independent directors selected by the existing board members.

Each of Madame Qiao Li and Dr. Wang Changli will enter into a three-year employment agreement with HollySys Holdings. Madame Qiao will be employed as Chairman, and Dr. Wang will be chief executive officer.

Special Meeting of Chardan 's Stockholders

The special meeting of the stockholders of Chardan will be held at _____ a.m., Pacific time, on _____, 2006, at Chardan's offices at 625 Broadway, Suite 1111, San Diego, California, 92101 to approve the stock purchase, the Redomestication Merger and the stock option plan proposals.

Approval of the HollySys Stockholders

All of the HollySys Stockholders have approved the stock purchase proposal and the transactions contemplated thereby by virtue of the execution of the stock purchase agreement.

Voting Power; Record Date

You will be entitled to vote or direct votes to be cast at the special meeting if you owned shares of Chardan common stock at the close of business on _____, 2006, which is the record date for the special meeting. You will have one vote for each share of Chardan common stock you owned at the close of business on the record date. Chardan warrants do not have voting rights. On the record date, there were _____ outstanding shares of Chardan common stock.

Vote Required to Approve the Proposals

The approval of the stock purchase agreement proposal will require the affirmative vote of the holders of a majority of the outstanding shares of Chardan common stock on the record date.

The approval of the Redomestication Merger proposal will require the affirmative vote of the holders of a majority of the outstanding shares of Chardan common stock on the record date.

The approval of the stock option plan proposal will require the affirmative vote of the holders of a majority of the shares represented and entitled to vote at the meeting.

Relation of Proposals

The stock purchase will not be consummated unless the Redomestication Merger proposal is approved, and the Redomestication Merger will not be consummated unless the stock purchase proposal is approved. The approval of the stock option plan is not a condition to consummation of either the stock purchase or the Redomestication Merger proposals.

Conversion Rights

Pursuant to Chardan's Certificate of Incorporation, a holder of shares of Chardan's common stock issued in its initial public offering may, if the stockholder votes against the stock purchase, demand that Chardan convert such shares into cash. This demand must be made in writing at the same time that the stockholder votes against the stock purchase proposal. If so demanded, Chardan will convert each share of common stock into a pro rata portion of the trust account as of the record date. If you exercise your conversion rights, then you will be exchanging your shares of Chardan common stock for cash and will no longer own these shares. You will be entitled to receive cash for these shares only if you continue to hold these shares through the effective time of the stock purchase and then tender your stock certificate to the combined company. If the stock purchase is not completed, then these shares will not be converted into cash at that time.

The stock purchase will not be consummated if the holders of 20% or more of common stock issued in Chardan's initial public offering (1,150,000 shares or more) exercise their conversion rights.

Appraisal Rights

Appraisal rights are available under the Delaware General Corporation Law for the stockholders of Chardan in connection with the Redomestication Merger proposal. The procedure to exercise appraisal rights is described in detail elsewhere in this proxy statement. For a more complete discussion of appraisal rights, see Annex H.

Proxies

Proxies may be solicited by mail, telephone or in person. If you grant a proxy, you may still vote your shares in person if you revoke your proxy at or before the special meeting.

Stock Ownership

On the record date, directors and executive officers of Chardan and their affiliates (the "Management Shareholders") beneficially owned and were entitled to vote 1,250,000 shares of Chardan's common stock. In connection with its initial public offering, Chardan and EarlyBirdCapital, Inc. entered into agreements with each of the Management Shareholders, pursuant to which each Management Shareholder agreed to vote his shares of Chardan common stock (other than shares purchased in the open market) on the business combination in accordance with the majority of the votes cast by the holders of shares issued in connection with the initial public offering.

Chardan's Board of Directors' Recommendation

After careful consideration, Chardan's board of directors has determined unanimously that the stock purchase plan proposal, the Redomestication Merger proposal, and the stock option proposal are fair to, and in the best interests of, Chardan and its stockholders. Chardan's board has unanimously approved and declared advisable the stock purchase proposal, the Redomestication Merger proposal and the stock option plan proposal, and unanimously recommends that you vote or instruct your vote to be cast "FOR" the adoption of the stock purchase proposal, the Redomestication Merger proposal, and the stock option plan proposal. The board of directors did not obtain a fairness opinion.

Interests of Chardan Directors and Officers in the Stock Purchase

When you consider the recommendation of Chardan's board of directors that you vote in favor of adoption of the stock purchase proposal, you should keep in mind that a number of Chardan's executives and members of Chardan's board have interests in the stock purchase agreement that are different from, or in addition to, your interests as a stockholder. These interests include, among other things:

- if the stock purchase is not approved and Chardan fails to consummate an alternative transaction within the time allotted pursuant to its Certificate of Incorporation, Chardan will be required to liquidate. In such event, the shares of common stock held by Chardan's officers and directors will be worthless because Chardan's officers, directors and initial stockholders are not entitled to receive any liquidation proceeds. Additionally, any warrants held by such persons will expire worthless in the event of liquidation;
- after the completion of the stock purchase, Mr. Kerry Propper will serve as a member of the board of directors of HLS; and
- after the completion of the stock purchase, Chardan Capital, LLC, an affiliate of Dr. Propper, Chardan's Chairman, will provide a variety of ongoing services to HollySys. Such services will be provided on a month-to-month basis, terminable at will by HollySys without penalty, at a cost to HollySys of \$30,000 per month. There is no written

agreement governing the services to be provided, which will be on a non-exclusive basis and include advice and help in meeting US public company reporting requirements and accounting standards, Sarbanes-Oxley compliance, corporate structuring and development, stockholder relations, corporate finance and operational capitalization and such other similar services as requested and agreed to by Chardan Capital, LLC.

Conditions to the Completion of the Stock Purchase

Each of Chardan's and the HollySys Stockholders' obligation to effect the stock purchase is subject to the satisfaction or waiver of specified conditions, including the following:

Conditions to Chardan's and the HollySys Stockholders' obligations

- Approval by Chardan's stockholders of the stock purchase and Redomestication Merger proposals;
- the absence of any order or injunction preventing consummation of the stock purchase;
- the absence of any suit or proceeding by any governmental entity or any other person challenging the stock purchase or seeking to obtain from the HollySys Parties or Chardan any damages;
- at Chardan's stockholders' meeting, holders of less than 1,150,000 shares of common stock issued in Chardan's initial public offering, vote against the stock purchase proposal and demand that Chardan convert their shares into a pro rata portion of the trust account; and
- Certain key members of the management team of the HollySys Operating Companies will have entered into employment agreements in form and substance acceptable to Chardan, providing, among other things, for a term of three years at compensation levels in effect prior to the closing of the stock purchase and including intellectual property assignment and non-competition provisions to be in effect for a period of two years following termination of employment.

Conditions to Chardan's obligations

- the HollySys Stockholders' representations and warranties that are qualified as to materiality must be true and correct in all respects, and those not qualified as to materiality must be true and correct in all material respects, as of the date of completion of the stock purchase, except representations and warranties that address matters as of another date, which must be true and correct as of that other date, and Chardan must have received an officer's certificate from the HollySys Stockholders to that effect;
- the HollySys Stockholders must have performed in all material respects all obligations required to be performed by them;
 - HollySys Holdings will have acquired ownership or control of the three HollySys Operating Companies;
- the HollySys Stockholders must have received all required and unconditional approvals or consents of governmental authorities, and Chardan must have received written confirmation that such approvals and consents have been received;
- Chardan must have received a written opinion, dated as of the closing date, from Guantao Law Firm, counsel to the HollySys Parties relating to, among other things, the validity and enforceability of the stock consignment agreements;
- there must not have occurred since the date of the stock purchase agreement any HollySys Material Adverse Effect, as defined in the stock purchase agreement; and
- the Proxy Statement/Prospectus Information, as defined in the stock purchase agreement, accurately describes HollySys, the HollySys Operating Companies and the business in which they are engaged, and the HollySys Stockholders, and the HollySys Proxy Statement/Prospectus Information does not contain any untrue statement of a

material fact or omit to state a material fact necessary in order to make the statements in the HollySys Proxy Statement/Prospectus Information not misleading.

Conditions to the HollySys Stockholders' obligation

- Chardan's representation and warranty regarding the compliance of the stock purchase agreement and the agreements contemplated by the stock purchase agreement with the applicable provisions in Chardan's Certificate of Incorporation must be true and correct in all respects, as of the date of completion of the stock purchase;
- Chardan must have performed in all material respects all obligations required to be performed by them under the stock purchase agreement; and
- there must not have occurred since the date of the stock purchase agreement any Chardan Material Adverse Effect, as defined in the stock purchase agreement.

No Solicitation

The stock purchase agreement contains detailed provisions prohibiting each of Chardan and the HollySys Stockholders from seeking an alternative transaction. These covenants generally prohibit Chardan and the HollySys Stockholders, as well as their officers, directors, subsidiaries, employees, agents and representatives, from taking any action to solicit an alternative acquisition proposal. The stock purchase agreement does not, however, prohibit Chardan from considering an unsolicited bona fide written superior proposal from a third party. The approval of the stock purchase agreement by the HollySys Stockholders has already been given, and no proposal from a third party will be effective to revoke or withdraw that approval.

Termination, Amendment and Waiver

The stock purchase agreement may be terminated at any time prior to the consummation of the stock purchase, whether before or after receipt of the Chardan stockholder approval, as follows:

- by mutual written consent of Chardan and the HollySys Stockholders;
- by either party if the other party amends a schedule and such amendment or supplement reflects a material adverse change in the condition, operations or prospects of its business;
- by either party if the closing has not occurred by June 15, 2006 (unless such terminating party is in breach of any of its material covenants, representations or warranties);
- by either party if the other party has breached any of its covenants or representations and warranties in any material respect and has not cured its breach within ten business days of the notice of an intent to terminate, provided that the terminating party is itself not in breach;
- by the HollySys Stockholders, if the board of directors of Chardan (or any committee thereof) shall have failed to recommend or withdraw or modify in a manner adverse to HollySys its approval or recommendation of the stock purchase agreement and any of the transactions contemplated thereby;
- by Chardan if its board of directors shall have determined in good faith, based upon the advice of outside legal counsel, that failure to terminate the stock purchase agreement is reasonably likely to result in the board of directors breaching its fiduciary duties to stockholders by reason of a pending, unsolicited, bona fide written proposal for a superior transaction; or
- by either party if, at the Chardan stockholder meeting, the stock purchase agreement and the Redomestication Merger shall fail to be approved and adopted by the affirmative vote of the holders of Chardan's common stock, or 20% or more of the shares sold in Chardan's initial public offering request conversion of their shares into the pro rata

portion of the trust account in accordance with the Chardan Certificate of Incorporation.

The HollySys Stockholders have no right to damages from Chardan or HLS and they have no right to any amount held in the trust account. The HollySys Stockholders have agreed not to make any claim against Chardan and HLS that would adversely affect the business, operations or prospects of Chardan and HLS or the amount of the funds held in the trust account.

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Quotation or Listing

Chardan's outstanding common stock, warrants and units are quoted on the Over-the-Counter Bulletin Board. HLS intends to apply to have the HLS common stock, warrants and units quoted on the Nasdaq National Market at the consummation of the stock purchase. The proposed Nasdaq symbols are HLSS, HLSSW and HLSSU. Seeking the Nasdaq listing is an obligation of Chardan under the stock purchase agreement. If Nasdaq listing is not achieved, management anticipates that the common stock, warrants and units will continue to trade on the OTCBB.

Governance after the Purchase

As provided in the stock purchase agreement, the board of the combined company will initially consist of nine members, three of whom are designated by HollySys, one of whom is designated by Chardan and the others to be mutually determined (but in all cases the other directors must satisfy the Nasdaq standards for independence.)

Indemnification by HollySys Stockholders

The HollySys Stockholders have agreed to indemnify Chardan for breaches of their representations, warranties and covenants.

Comparison of Stockholders Rights

In connection with the consummation of the stock purchase agreement, Chardan has formed a wholly owned subsidiary under the laws of the British Virgin Islands, under the name of HLS Systems International Ltd. Chardan will, if the stock purchase proposal and Redomestication Merger proposal are approved, merge with HLS, effectively changing its jurisdiction of incorporation from Delaware to the British Virgin Islands. Chardan's common stock will be converted into common stock of HLS. The rights of Chardan stockholders will change accordingly. A comparison of the rights of stockholders under Delaware and British Virgin Islands law is included elsewhere in this proxy statement/prospectus.

Material United States Federal Income Tax Consequences of the Stock Purchase

Chardan expects that the Redomestication Merger will qualify as a reorganization for United States federal income tax purposes. Accordingly, no gain or loss should be recognized by Chardan stockholders as a result of their exchange of Chardan common stock for the common stock of HLS. Nevertheless, as a result of the Redomestication Merger, Chardan will be treated for United States federal income tax purposes as if it sold all of its assets to HLS. As a result, Chardan will recognize gain (but not loss) as a result of the Redomestication Merger equal to the difference, if any, between the adjusted tax basis in Chardan's assets and such asset's fair market value at the effective time of the Redomestication Merger. Chardan will not, however, recognize any gain or loss as a result of the purchase of HollySys stock, pursuant to the Stock Purchase Agreement.

Accounting Treatment

The stock purchase transaction will be accounted for as a recapitalization of HollySys rather than as an acquisition. The financial statements of HLS will combine the historical statements of HollySys Holdings with the balance sheet of Chardan from the effective date of the stock purchase transaction.

Regulatory Matters

The stock purchase and the transactions contemplated by the stock purchase agreement are not subject to any federal or state regulatory requirement or approval, including the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or HSR Act, except for filings necessary to effectuate the transactions contemplated by the stock purchase and

Redomestication Merger proposals with the State of Delaware and the British Virgin Islands.

Board Solicitation

Your proxy is being solicited by the board of directors of Chardan on each of the three proposals being presented to the stockholders at the special meeting.

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SELECTED HISTORICAL FINANCIAL DATA

We are providing the following financial information to assist you in your analysis of the financial aspects of the stock purchase. We derived HollySys Holdings historical information from the audited consolidated financial statements of HollySys Holdings as of and for each of the years ended June 30, 2005, 2004 and 2003. The selected historical financial data for the years ended June 30, 2002 and 2001 were unaudited. We derived the Chardan historical information from the audited financial statements for the year ended December 31, 2005. The selected financial data information is only a summary and should be read in conjunction with each company's historical consolidated financial statements and related notes contained elsewhere herein. The historical results included below and elsewhere in this proxy statement/prospectus are not indicative of the future performance of HollySys, Chardan or the combined company resulting from the business combination.

THE HOLLYSYS HOLDINGS HISTORICAL FINANCIAL DATA

Statement of Income Data	Years Ended June 30,					Six Months Ended December 31,	
	2001	2002	2003	2004	2005	2004	2005
Revenue	\$ 18,148,063	\$ 28,569,576	\$ 35,985,608	\$ 53,074,256	\$ 79,572,832	\$ 40,532,781	\$ 49,432,026
Gross margin	40.26%	30.84%	31.61%	30.40%	33.80%	33.84%	35.10%
Operating income	3,294,500	3,262,957	3,515,563	7,431,631	13,875,018	7,104,805	9,270,825
Subsidy income	-	212,577	634,612	2,782	2,292,880	1,824,172	2,737,028
Net income	1,263,737	1,664,779	2,227,134	4,735,276	13,703,521	7,571,362	8,994,790
Weighted average common shares	23,500,000	23,500,000	23,500,000	23,500,000	23,500,000	23,500,000	23,500,000

At June 30,

Balance Sheet Data	2001	2002	2003	2004	2005	December 31, 2005
Total current assets	\$ 22,585,923	\$ 28,975,207	\$ 35,688,012	\$ 57,507,123	\$ 78,419,667	\$ 87,811,078
Total assets	31,113,380	39,429,145	47,202,013	70,006,021	96,064,098	110,651,178
Total current liabilities	19,399,668	23,028,811	24,823,166	45,723,094	56,081,886	58,321,445
Long-term liability	4,409,810	6,826,062	9,664,871	5,195,370	6,645,321	6,815,197
Minority Interest	1,890,980	2,478,779	3,388,627	4,425,419	6,334,435	8,705,593
Stockholders' equity	5,412,921	7,095,493	9,325,349	14,662,138	27,002,456	36,808,943

CHARDAN HISTORICAL FINANCIAL INFORMATION

**For the Period
From March 10,
2005 (Inception)**

	to December 31, 2005
Revenue	\$ -
Interest income on trust account	\$ 347,871
Net loss	\$ (101,742)
Net loss per share	\$ (0.03)
<hr/>	
Total assets (including cash deposited in trust account in 2005)	\$ 31,353,114
Common shares subject to possible conversion	\$ 5,964,017
Stockholders' equity	\$ 24,905,084

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SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The stock purchase transaction will result in those shareholders in HollySys Holdings obtaining a majority of the voting interests in Chardan Sub (subsequently named HLS Systems International Limited). Generally accepted accounting principles require that the company whose shareholders retain the majority voting interest in a combined business be treated as the acquirer for accounting purposes. Since Chardan does not have any assets with operating substance except cash, the transaction has been accounted for as reorganization and recapitalization of HollySys Holdings. The cash of \$30 million to be paid to the shareholders of HollySys Holdings will be accounted for as a capital distribution. The stock purchase transaction utilizes the capital structure of Chardan and the assets and liabilities of HollySys Holdings are recorded at historical cost. Although HollySys Holdings will be deemed to be the acquiring company for accounting and financial reporting purposes, the legal status of Chardan Sub (subsequently named HLS Systems International Limited) as the surviving corporation will not change.

We have presented below selected unaudited pro forma combined financial information that reflects the result of the stock purchase transaction and is intended to provide you with a better picture of what our businesses might have looked like had they actually been combined. The combined financial information may have been different had the companies actually been combined. The selected unaudited pro forma combined financial information does not reflect the effect of asset dispositions, if any, or cost savings that may result from the stock purchase. You should not rely on the selected unaudited pro forma combined financial information as being indicative of the historical results that would have occurred had the companies been combined or the future results that may be achieved after the stock purchase. The following selected unaudited pro forma combined financial information has been derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial statements and related notes thereto included elsewhere in this proxy statement/prospectus.

	Year Ended December 31, 2005	
	Assuming Maximum Approval	Assuming Minimum Approval
Revenue	\$ 88,472,077	\$ 88,472,077
Net income	14,721,636	14,692,681
Net income per share	0.52	0.53
Total assets	\$ 114,830,385	\$ 112,812,737
Long-term debt	6,815,197	6,815,197
Stockholders' equity	37,764,439	31,714,027

COMPARATIVE PER SHARE INFORMATION

The following table sets forth selected historical per share information of HollySys and Chardan and unaudited pro forma combined per share ownership information of HollySys and Chardan after giving effect to the stock purchase proposal of HollySys, which includes control of the HollySys Operating Companies and the merger between the Chardan and HLS, assuming a maximum level and a minimum level of approval of the stock purchase by Chardan stockholders who exercise their conversion and/or appraisal right. The stock purchase transaction will be accounted for as a recapitalization of HollySys.

You should read this information in conjunction with the selected historical financial information, included elsewhere in this proxy statement/prospectus, and the historical financial statements of HollySys and Chardan and related notes that are included elsewhere in this proxy statement/prospectus. The unaudited HollySys and Chardan pro forma combined per share information is derived from, and should be read in conjunction with, the Unaudited Pro Forma Combined Financial Information and related notes included elsewhere in this proxy statement/prospectus. The historical per share information of HollySys Holdings was derived from its audited financial statements as of and for the years ended June 30, 2004 and 2005.

The unaudited pro forma combined per share information does not purport to represent what the actual results of operations of HollySys and Chardan would have been had the companies been combined or to project the HollySys and Chardan results of operations that may be achieved after the stock purchase.

Number of shares of common stock assumed to be issued in stock purchase:	HollySys	Chardan (1) (2)	Combined Company (2)
Assuming maximum approval	23,500,000	7,000,000	30,500,000
	77.05%	22.95%	100%
Assuming minimum approval	23,500,000	5,850,575	29,350,575
	80.07%	19.93%	100%
Net income (loss) per share - historical on weighted average basis			
Year ended June 30, 2004:	\$ 0.20		
Year ended June 30, 2005:	0.58		
Year ended December 31, 2005		(0.03)	
Net income per share - pro forma on weighted average basis - diluted			
under maximum approval assumption			\$ 0.52
under minimum approval assumption			\$ 0.53
Net assets at book value per share - December 31, 2005 (3)			
		\$ 4.26	\$ 1.08
Net assets at book value per share - June 30, 2005	\$ 1.57		

Notes:

- (1) Operations of Chardan are for the period from March 10, 2005 (inception) to December 31, 2005.
- (2) Historical per share amounts for Chardan were determined based upon the actual weighted average shares outstanding at December 31, 2005 and combined pro forma per share amounts for Chardan and HollySys were determined based upon the assumed number of shares to be issued under the two different levels of approval.
- (3) Calculated based on the minimum approval, to record refund of funds (\$5,964,017 plus \$86,395 for related interest) to dissenting stockholders

MARKET PRICE INFORMATION

Chardan's common stock, warrants and units are each quoted on the Over-the-Counter Bulletin Board under the symbols CNCA, CNCAW and CNCAU, respectively. Chardan's units commenced public trading on August 5, 2005 and its common stock and warrants commenced public trading on August 31, 2005. The closing price for each share of common stock, warrant and unit of Chardan on February 1, 2006, the last trading day before announcement of the execution of the stock purchase agreement was \$6.78, \$2.82 and \$12.25, respectively.

In connection with the stock purchase, HLS intends to apply for the quotation of the combined company's common stock, warrants and units on the Nasdaq National Market. The proposed symbols are HLSS, HLSSW and HLSSU. Management anticipates that, if Nasdaq approves this listing, it will be concurrent with the consummation of the Redomestication Merger. If the listing on Nasdaq is not finally approved, management expects that the common stock, warrants and units will continue to trade on the OTCBB. Currently there is no trading market for any securities of HLS, and there can be no assurance that a trading market will develop.

The table below sets forth, for the calendar quarters indicated, the high and low bid prices of the Chardan common stock, warrants and units as reported on the Over-the-Counter Bulletin Board. The over-the-counter market quotations reported below reflect inter-dealer prices, without markup, markdown or commissions and may not represent actual transactions.

Over-the-Counter Bulletin Board

	Chardan Common Stock		Chardan Warrants		Chardan Units	
	High	Low	High	Low	High	Low
2005 Third Quarter	\$ 6.00	\$ 5.17	\$ 1.15	\$ 0.70	\$ 7.50	\$ 6.15
2005 Fourth Quarter	\$ 5.75	\$ 5.15	\$ 1.86	\$ 1.01	\$ 9.30	\$ 7.20
2006 First Quarter (through March 24, 2006)	\$ 12.50	\$ 5.74	\$ 7.00	\$ 1.65	\$ 26.25	\$ 9.10

Holders

As of February 13, 2006, there was one holder of record of the units, six holders of record of the common stock and one holder of record of the warrants. Chardan believes that there are more than 400 beneficial holders of each of the units, common stock and warrants.

It is anticipated that the number of holders of HLS units, common stock and warrants after the Redomestication Merger will be approximately the same as the number of holders of Chardan common stock. Immediately thereafter the number of holders of common stock will be increased by six persons by the issuance of shares in the acquisition of HollySys Holdings.

Dividends

Chardan has not paid any dividends on its common stock to date and does not intend to pay dividends prior to the completion of a business combination.

The payment of dividends by HLS in the future will be contingent upon revenues and earnings, if any, capital requirements and general financial condition of HollySys subsequent to completion of a business combination. The payment of any dividends subsequent to a business combination will be within the discretion of the then board of directors. It is the present intention of the board of directors to retain all earnings, if any, for use in the business operations and, accordingly, the board does not anticipate declaring any dividends in the foreseeable future.

RISK FACTORS

You should carefully consider the following risk factors, together with all of the other information included in this proxy statement/prospectus, before you decide whether to vote or instruct your vote to be cast to adopt the stock purchase proposal.

If we complete the acquisition of HollySys Holdings, HLS will be subject to a number of risks. You should carefully consider the risks we describe below and the other information included in this proxy statement/prospectus before you decide how you want to vote on the stock purchase proposal. Following the closing of the stock purchase, the market price of our common stock could decline due to any of these risks, in which case you could lose all or part of your investment. In assessing these risks, you should also refer to the other information included in this proxy statement/prospectus, including our consolidated financial statements and the accompanying notes. You should pay particular attention to the fact that we would become a holding company with substantial operations in China. As a result, we would be subject to legal and regulatory environments that differ in many respects from those of the U.S. Our business, financial condition or results of operations could be affected materially and adversely by any of the risks discussed below and any others not foreseen. This discussion contains forward-looking statements.

Risks Related to the Business of HollySys

A decrease in the rate of growth in Chinese industry and the Chinese economy in general may adversely affect the operating results of HollySys.

Industrial companies operating in China are the principal current source of revenues for HollySys. HollySys' business has benefited in the past from the rapid expansion of China's industrial activity, which has created additional demand from existing companies and led to the formation of numerous additional companies that have need for HollySys' products and services. China's industrial expansion has been fueled in large measure by international demand for the low-cost goods that China is able to produce due to labor and other comparative advantages. The Chinese economy may not be able to sustain this rate of growth in the future, and any reduction in the rate of China's industrial growth or a shrinking of China's industrial base could adversely affect HollySys' revenues. The resulting increase in competition for customers might also cause erosion of profit margins that HollySys has been able to achieve historically.

The success of HollySys' business depends heavily on securing a steady stream of new customers.

HollySys' average contract is worth approximately \$100,000. While some of those contracts are for upgrades and additions to existing control systems, most of them are for new installations. In order for HollySys' business to continue to succeed and grow, it needs to secure contracts with new customers on a regular basis. HollySys may not be successful in securing new contracts.

HollySys' plans for growth rely on a shift to sectors where the average contract size is much larger than its current average, and it may not be able to secure a sufficient number of those contracts to meet its growth objectives.

While the principal focus of HollySys' business until recently has been to provide distributed control systems to industrial and manufacturing companies, its plans for growth include an increasing emphasis on railroad control systems and nuclear power generation control systems. These sectors generally present fewer business opportunities during a given period relative to the industrial and manufacturing sectors. However, the average size of contracts in those sectors tends to be much larger, and as a result, the competition for such contracts is substantial. HollySys may not be successful in entering these new markets and, if it were unable to do so, its revenues and profits would decline, resulting in a decreased value of our stock.

A lack of adequate engineering resources could cause HollySys' business to suffer.

One of the competitive advantages that HollySys' business enjoys is the relatively low cost of engineering staff compared to those of its Western and Japan-based competitors. The plentiful supply of affordable engineering talent in China is a key element of HollySys' overall business strategy. However, if the available supply of engineers were to be absorbed by competing demands, then the cost of hiring, training and retaining capable engineers would likely increase. This could result in a reduction in HollySys' profitability and business prospects, or could even cause a change in its business strategy.

HollySys does not have long-term purchase commitments from its customers.

HollySys is engaged in the design, production and installation of automation and process control systems. As a result, its revenues result from numerous individual contracts that, once completed, typically produce only a limited amount of ongoing revenues for maintenance and other services. Furthermore, customers may change or delay or terminate orders for products without notice for any number of reasons unrelated to us, including lack of market acceptance for the products to be produced by the process our system was designed to control. As a result, in order to maintain and expand its business, HollySys must be able to replenish the orders in its pipeline on a continuous basis. It is possible that some of its potential customers could choose the products of its competitors. Should they do so, HollySys would suffer a decline in revenues and profitability.

HollySys faces intense competition, and many of its competitors have substantially greater resources than we do.

HollySys operates in a very competitive environment. It competes with many major international and domestic companies, such as Honeywell, General Electric, ABB, Siemens, Emerson, and Hitachi. Many of its competitors are much better established and more experienced than HollySys, have substantially greater financial resources, operate in many international markets and are much more diversified than HollySys. As a result, they are in a strong position to compete effectively with HollySys by, for example, reducing their prices, which could force HollySys to reduce its prices. These large competitors are also in a better position than HollySys is to weather any extended weaknesses in the market for their products. Other emerging companies or companies in related industries may also increase their participation in the automation and control systems market, which would add to the competitive pressures that HollySys faces.

The growth of HollySys' business depends on its ability to finance new products and services.

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 HollySys designs and builds has accelerated the pace of change in its industry. Where there was formerly as much as a decade or even more between successive generations of automation systems, the time between generations is now as little as two to three years.

The success of HollySys' business depends in great measure on its ability to keep pace with, or even lead, the changes that are occurring. Technological advances, the introduction of new products, new designs and new manufacturing techniques by its competitors could adversely affect its business unless it is able to respond with similar advances. To remain competitive, HollySys must continue to incur significant costs in product development, equipment and facilities and to make capital investments. These costs may increase, resulting in greater fixed costs and operating expenses than HollySys has incurred to date. As a result, it 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; and

Expansion of manufacturing capacity.

HollySys' future operating results will depend to a significant extent on its ability to continue to provide new product solutions that compare favorably on the basis of time to market, cost and performance with competing third-party suppliers and technologies. Its failure to increase net sales sufficiently to offset the increased costs needed to achieve those advances would adversely affect its operating results.

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Products HollySys manufactures may contain design or manufacturing defects, which could result in reduced demand for its services and customer claims.

HollySys manufactures products to its customers' requirements, which can be highly complex and may at times contain design or manufacturing errors or failures. Any defects in the products it manufactures, whether caused by a design, manufacturing or component failure or error, may result in returns, claims, delayed shipments to customers or reduced or cancelled customer orders. If these defects occur, HollySys will incur additional costs, and if they occur in large quantity or frequently, HollySys may sustain additional costs, loss of business reputation and legal liability.

HollySys is in the process of entering market segments that pose substantial risk of liability if its products fail to perform as designed.

While not insignificant, the risk of failure of HollySys' products in the industrial sector normally involves a limited extent of liability. For example, if the controls for on industrial production batch process fail to operate properly, HollySys' customer could lose the batch in question. However, the risk of a catastrophic failure is relatively small.

HollySys is in the process of entering both the 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. For example, if the interlock system designed to control rail traffic should fail, it could lead to a collision with attendant loss of life and substantial financial liability. Similarly, if the control systems for a nuclear power plant result in the release of radioactive materials, the effects on human health and the environment could involve substantial financial liability as compensation to victims and to restore damage done to the environment.

HollySys may not be able to obtain adequate insurance coverage to protect it and us against these and other risks associated with its business. As a result, the failure of any of its products could result in a liability that would seriously impair the financial condition or even force it or us out of business.

HollySys could become involved in intellectual property disputes.

HollySys' business is based on a number of proprietary products and systems, some of which are patented, others of which it protects as trade secrets. HollySys expects that its reliance on these proprietary products and systems will grow, as the functionality of automation systems increases to meet customer demand and as it tries to open new markets for its products. If a third party should infringe on any of HollySys' intellectual property rights, it may need to devote significant time and financial resources to attempt to halt the infringement, and it may not be successful in such a dispute. Similarly, in the event of an infringement claim against HollySys, it may be required to spend a significant amount of time and financial resources to resolve the claim. It may not be successful in defending its position or negotiating an alternative. Any litigation could result in substantial costs and diversion of its management resources and could materially and adversely affect its business and operating results.

HollySys may develop new products that may not gain market acceptance.

HollySys operates in an industry characterized by increasingly frequent and rapid technological advances, product introductions and new design and manufacturing improvements. As a result, it must expend funds and commit resources to research and development activities, possibly requiring additional engineering and other technical personnel; purchasing new design, production, and test equipment; and enhancing its design and manufacturing processes and techniques. It may invest in equipment employing new production techniques for existing products and new equipment in support of new technologies that fail to generate adequate returns on the investment due to insufficient productivity, functionality or market acceptance of the products for which the equipment may be used. HollySys could, therefore, incur significant costs for design and manufacturing services for new product solutions that do not generate a sufficient return on that investment, which would adversely affect its future operating results. HollySys' future operating results will depend significantly on its ability to provide timely design and manufacturing

services for new products that compete favorably with design and manufacturing capabilities of third party suppliers.

If HollySys is not able to apply new technology in its products or develop new products, its sales will suffer.

HollySys success depends, in significant part, on its ability to develop products and services that customers will accept. It may not be able to develop successful new products in a timely fashion. Its commitment to customizing products to address particular needs of its customers could burden its resources or delay the delivery or installation of its products. If there is a fundamental change in its industry, some of HollySys' products could become obsolete and it may need to develop new products rapidly.

HollySys plans to enter the international automation market may not prove successful.

To date HollySys has conducted nearly all of its business within China. However, it has plans to enter international markets in the near future. While the manner in which HollySys plans to do so will likely not involve large amounts of capital and resources, it will require meaningful amounts of management time and attention. HollySys' products and its overall approach to the automation and controls system business may not be accepted in other markets to the extent needed to make that effort profitable. In addition, the additional demands on its management from these activities may detract from their efforts in the domestic Chinese market, causing the operating results in its principal market to be adversely affected.

HollySys may not obtain the required certification to engage in the railway systems market segment.

At present there are only two Chinese companies that are certified to design and produce traffic control systems for railway transportation. HollySys does not yet have that certification, which is necessary for it to be able to provide complete systems for that purpose independent of other parties. HollySys is in the process of obtaining that certification, and it expects to do so by the end of its current fiscal year (June 30 2006). However, it may not achieve that certification in a timely manner or at all. Any delay in obtaining that certification would postpone and reduce the anticipated revenues associated with its entry into that sector, and if it fails to obtain the certification it would lose the ability to provide products and services independently in that market. The result would be an unfavorable effect on our overall operating results.

Expiration of or changes to certain government incentives could have a material adverse effect on HollySys' operating results.

The PRC government and various provincial governments have provided various incentives to high technology companies in order to encourage development of the domestic high technology industry. Such incentives include reduced tax rates and other measures. For example, since HollySys is registered in a high technology zone in Beijing and has been designated as a high technology company by the Beijing Commission of Science and Technology, it is entitled to a preferential enterprise income tax rate of 15% so long as it continues to operate in the high tech zone and maintains its high or new technology enterprise status. As these tax benefits expire, the effective tax rate will increase significantly, and any increase in HollySys' enterprise income tax in the future could have a material adverse effect on our financial condition and results of operations.

We may not be able to secure financing needed for future operating needs on acceptable terms, or on any terms at all.

From time to time, we may seek additional equity or debt financing to provide the capital required to maintain or expand HollySys' design and production facilities and equipment and/or working capital, as well as to repay outstanding loans if its cash flow from operations is insufficient to do so. We cannot predict with certainty the timing or amount of any such capital requirements. If such financing is not available on satisfactory terms, we may be unable to expand HollySys' business or to develop new business at the rate desired, and its operating results may suffer.

Failure to manage HollySys' growth effectively could adversely affect its operations.

HollySys has increased the number of its manufacturing and design programs and intends to expand further the number and diversity of its programs. It may also increase the number of its manufacturing locations. HollySys' ability to manage its planned growth effectively will require it to:

enhance its quality, operational, financial and management systems;

expand its facilities and equipment; and

successfully hire, train and motivate additional employees, including the engineering and technical personnel necessary to operate its production facilities.

An expansion and diversification of HollySys product range, manufacturing and sales will result in increases in its overhead and selling expenses. It may also be required to increase staffing and other expenses as well as our expenditures on plant, equipment and property in order to meet the anticipated demand of its customers. Customers, however, generally do not commit to firm production schedules for more than a short time in advance. Any increase in expenditures in anticipation of future orders that do not materialize would adversely affect its profitability. Customers also may require rapid increases in design and production services that would place an excessive short-term burden on HollySys' resources and reduce its profitability.

HollySys may not be able to retain, recruit and train adequate management and production personnel.

HollySys success is dependent, to a large extent, on its ability to retain the services of its executive management personnel, who have contributed to its growth and expansion. The executive directors play an important role in the operations of HollySys and the development of its new products. Accordingly, the loss of their services, in particular Dr. Wang Changli, without suitable replacement, will have an adverse affect on its operations and future prospects.

In addition, HollySys' continued operations are dependent upon its ability to identify and recruit adequate engineering and production personnel in China. It requires trained graduates of varying levels and experience and a flexible work force of semi-skilled operators. With the current rate of economic growth in China, competition for qualified personnel will be substantial. The favorable employment climate may not continue and the wage rates HollySys must offer to attract qualified personnel may not enable it to remain competitive internationally.

Risks Related to International Operations

If the PRC does not continue its policy of economic reforms, it could, among other things, result in an increase in tariffs and trade restrictions on products HollySys produces or sells.

The PRC government has been reforming its economic system since the late 1970s. The economy of the PRC has historically been a nationalistic, "planned economy," meaning it has functioned and produced according to governmental plans and pre-set targets or quotas.

However, in recent years, the PRC government has implemented measures emphasizing the utilization of market forces for economic reform and the reduction of state ownership in business enterprises. HollySys' business has benefited greatly from that new outlook. Although we believe that the changes adopted by the PRC government have had a positive effect on the economic development of the PRC, additional changes still need to be made. For example, a substantial portion of productive assets in the PRC are still owned by government entities. Additionally, governments continue to play a significant role in regulating industrial development. We cannot predict the timing or extent of any future economic reforms that may be proposed.

A recent positive economic change has been the PRC's entry into the World Trade Organization, the global international organization dealing with the rules of trade between nations. Many observers believe that the PRC's entry will ultimately result in a reduction of tariffs for industrial products, a reduction in trade restrictions and an increase in international trade with China. However, the PRC has not yet fully complied with all of obligations that it must meet prior to being admitted as a full member of the WTO, including fully opening its markets to goods from other countries, currency exchange requirements and other measures designed to ease the current trade imbalance that China has with many of its trading partners. If the scheduled actions to rectify these problems are not completed, trade relations between China and some of its trading partners may be strained. While the majority of HollySys' business currently is conducted solely within China, this may have a negative impact on China's economy generally, which would adversely affect its business. It could also reduce or eliminate any benefits that HollySys hopes to achieve by expanding our business internationally.

The Chinese government could change its policies toward, or even nationalize, private enterprise, which could harm HollySys' operations.

Over the past several years, the Chinese government has pursued economic reform policies, including the encouragement of private economic activities and decentralization of economic regulation. The Chinese government may not continue to pursue these policies or may significantly alter them to HollySys' detriment from time to time without notice. Changes in policies by the Chinese government that result in a change of laws, regulations, their interpretation, or the imposition of high levels of taxation, restrictions on currency conversion or imports and sources of supply could materially and adversely affect HollySys' business and operating results. The nationalization or other

expropriation of private enterprises by the Chinese government could result in the total loss of our investment in China.

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The Chinese legal system may have inherent uncertainties that could materially and adversely impact HollySys' ability to enforce the agreements governing its operations.

The performance of the agreements and the operations of HollySys' factories are dependent on its relationship with the local government in China. HollySys' operations and prospects would be materially and adversely affected by the failure of the local government to honor its agreements or an adverse change in the laws governing them. In the event of a dispute, enforcement of these agreements could be difficult in China. China tends to issue legislation which is followed by implementing regulations, interpretations and guidelines that can render immediate compliance difficult. Similarly, on occasion, conflicts arise between national legislation and implementation by the provinces that take time to reconcile. These factors can present difficulties in HollySys achieving compliance. Unlike the U.S., China has a civil law system based on written statutes in which judicial decisions have limited precedential value. The Chinese government has enacted laws and regulations to deal with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, its experience in implementing, interpreting and enforcing these laws and regulations is limited, and HollySys ability to enforce commercial claims or to resolve commercial disputes in China is therefore unpredictable. Agencies of the Chinese government may exercise considerable discretion over these matters, and forces and factors unrelated to the legal merits of a particular matter or dispute may influence their determination.

Because our operations will be international, we will be subject to significant worldwide political, economic, legal and other uncertainties.

Upon consummation of the proposed transaction, we will be incorporated in the BVI and will have our principal operations in China. Because HollySys manufactures all of its products in China, substantially all of the net book value of our total consolidated fixed assets will be located there. While until now nearly all of HollySys' sales have been within China, it is expanding its efforts to sell them internationally as well. As a result, HollySys expects to have receivables from and goods in transit outside of China in the near future. Protectionist trade legislation in the U.S. or other countries, such as a change in export or import legislation, tariff or duty structures, or other trade policies, could adversely affect HollySys' ability to sell products in these markets, or even to purchase raw materials or equipment from foreign suppliers. [Moreover, we are subject to a variety of U.S. laws and regulations, changes to which may affect our ability to transact business with certain customers or in certain product categories.]

HollySys is also subject to numerous national, state and local governmental regulations, including environmental, labor, waste management, health and safety matters and product specifications. It is subject to laws and regulations governing its relationship with its employees, including: wage and hour requirements, working and safety conditions, citizenship requirements, work permits and travel restrictions. These include local labor laws and regulations, which may require substantial resources for compliance. HollySys is subject to significant government regulation with regard to property ownership and use in connection with its leased facilities in China, import restrictions, currency restrictions and restrictions on the volume of domestic sales and other areas of regulation, all of which impact its profits and operating results.

Fluctuation of the Renminbi could materially affect our financial condition and results of operations.

The value of the Renminbi, the main currency used in the PRC, fluctuates and is affected by, among other things, changes in the PRC's political and economic conditions. The conversion of Renminbi into foreign currencies such as the dollar has been generally based on rates set by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. The official exchange rate had remained stable over the past several years. However, the PRC recently adopted a floating rate with respect to the Renminbi, with a 0.3% fluctuation. As a result, the exchange rate of the Renminbi recently rose to 8.11 against the dollar, amounting to a 2% appreciation of the Renminbi. Most of HollySys' business is currently conducted inside of China using the Renminbi. As a result, changes in the exchange rate between it and other currencies should not have a material adverse effect on HollySys' current business. In fact, to the extent that the

Renminbi appreciates against the dollar over time, which is widely anticipated, the result will be to increase HollySys' earnings when stated in dollar terms.

However, HollySys is planning to increase the amount of business that it conducts internationally, and this floating exchange rate, and any fluctuation in the value of the Renminbi that may result, could have various adverse effects on its business.

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Changes in foreign exchange regulations in the PRC may affect HollySys' ability to pay dividends in foreign currency or conduct other foreign exchange business.

Renminbi, or RMB, is not presently a freely convertible currency, and the restrictions on currency exchanges may limit our ability to use revenues generated in RMB to fund our business activities outside the PRC or to make dividends or other payments in U.S. dollars. The PRC government strictly regulates conversion of RMB into foreign currencies. Over the years, foreign exchange regulations in the PRC have significantly reduced the government's control over routine foreign exchange transactions under current accounts. In the PRC, the State Administration for Foreign Exchange ("SAFE") regulates the conversion of the RMB into foreign currencies. Currently, Foreign Invested Enterprises are required to apply for "Foreign Exchange Registration Certificates." Hangzhou HollySys is a Foreign Invested Enterprise that has obtained the registration certification, and with such registration certification, which needs to be renewed annually, it is allowed to open foreign currency accounts including "current account" and "capital account." Currently, conversion within the scope of the "current account" (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in the "capital account" (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE. In accordance with the existing foreign exchange regulations in the PRC, Hangzhou HollySys will be able to pay dividends in foreign currencies, without prior approval from the SAFE, by complying with certain procedural requirements. After the consummation of the acquisition of Beijing HollySys stock by HollySys Holdings from the HollySys Stockholders, Beijing HollySys will change from a domestic company to a Foreign Invested Enterprise that is qualified to apply for the "Foreign Exchange Registration Certificate."

The current foreign exchange measures may be changed in a way that will make payment of dividends and other distributions outside of China more difficult or unlawful. In that case, if HollySys intended to distribute profits outside of the PRC, it might not be able to obtain sufficient foreign exchange to do so.

In addition, on October 21, 2005, SAFE promulgated Notice 75, Notice on Issues concerning Foreign Exchange Management in PRC Residents' Financing and Return investments through Overseas Special Intention Company. Notice 75 provides that PRC residents must apply for Foreign Exchange Investment Registration before establishing or controlling an OSIC, which is defined by Notice 75 as a foreign enterprise directly established or indirectly controlled by PRC residents for foreign equity capital financing with their domestic enterprise assets and interests. Notice 75 further requires that PRC residents must process the modification of foreign investment exchange registration for the interests of net assets held by PRC residents in an OSIC and its alteration condition, if PRC residents contributed their domestic assets or shares into the OSIC, or processed foreign equity capital financing after contributing their domestic assets or shares into the OSIC.

Pursuant to Notice 75, PRC residents are prohibited, among other things, from distributing profits or proceeds from a liquidation, paying bonuses, or transferring shares of the OSIC outside of the PRC if the PRC residents have not completed or do not maintain the Foreign Investment Exchange Registration.

We are subject to various tax regimes.

Upon consummation of the stock purchase transaction, we will have subsidiaries and/or operations in the PRC, and the BVI, and we may soon have operations in other jurisdictions. As a result, we will be subject to the tax regimes of these countries. Any change in tax laws and regulations or the interpretation or application thereof, either internally in one of those jurisdictions or as between those jurisdictions, may adversely affect our profitability and tax liabilities.

Because Chinese law will govern almost all of HollySys material agreements, we may not be able to enforce our legal rights within the PRC or elsewhere, which could result in a significant loss of business, business opportunities, or capital.

Chinese law will govern some of our material agreements after the share exchange. Our PRC subsidiaries may not be able to enforce their material agreements, and remedies may not be available outside of the PRC. The system of laws and the enforcement of existing laws in the PRC may not be as certain in implementation and interpretation as in the U.S. The Chinese judiciary is relatively inexperienced in enforcing corporate and commercial law, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. The inability to enforce or obtain a remedy under any of our future agreements could result in a significant loss of business, business opportunities or capital.

Additionally, substantially all of our assets will be located outside of the U.S. and most of our officers and directors will reside outside of the U.S. As a result, it may not be possible for investors in the U.S. to enforce their legal rights, to effect service of process upon our directors or officers or to enforce judgments of U.S. courts predicated upon civil liabilities and criminal penalties of our directors and officers under Federal securities laws. Moreover, we have been advised that the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the U.S. Further, it is unclear if extradition treaties now in effect between the U.S. and the PRC would permit effective enforcement of criminal penalties of the Federal securities laws.

It will be extremely difficult to acquire jurisdiction and enforce liabilities against our officers, directors and assets based in the PRC.

Because most of our officers and directors will reside outside of the U.S., it may be difficult, if not impossible, to acquire jurisdiction over these persons in the event a lawsuit is initiated against us and/or our officers and directors by a shareholder or group of shareholders in the U.S. Also, because our executive officers will likely be residing in the PRC at the time such a suit is initiated, achieving service of process against such persons would be extremely difficult. Furthermore, because the majority of our assets are located in the PRC it would also be extremely difficult to access those assets to satisfy an award entered against us in U.S. court. Moreover, we have been advised that the PRC does not have treaties with the U.S. providing for the reciprocal recognition and enforcement of judgments of courts.

We may have difficulty establishing adequate management, legal and financial controls in the PRC.

Most PRC companies historically have been less focused on establishing Western style management and financial reporting concepts and practices, as well as in modern banking, computer and other internal control systems. We may have difficulty in hiring and retaining a sufficient number of qualified internal control employees to work in the PRC. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards.

Trade barriers and taxes may have an adverse effect on HollySys' business and operations.

HollySys may experience barriers to conducting business and trade in its targeted emerging markets in the form of delayed customs clearances, customs duties and tariffs. In addition, it may be subject to repatriation taxes levied upon the exchange of income from local currency into foreign currency, substantial taxes of profits, revenues, assets and payroll, as well as value-added tax. The markets in which HollySys plans to operate may impose onerous and unpredictable duties, tariffs and taxes on its business and products, and there can be no assurance that this will not have an adverse effect on its finances and operations.

We will depend upon contractual agreements with several shareholders of Beijing HollySys in conducting our business through those entities, which may not be as effective in providing operational control as direct ownership and may be difficult to enforce.

Several of our shareholders own through contractual agreements, and for the benefit of our wholly-owned subsidiary, HollySys Holdings, majorities of the equity interests in our PRC operating companies. While we do not have a majority interest in Beijing HollySys, through these contractual agreements we enjoy voting control and are entitled to the economic interests associated with the stockholders' equity interest in Beijing HollySys. These contractual agreements may not be as effective in providing us with control over HollySys as direct ownership because we rely on the performance of the respective stockholders under the agreements. If those stockholders were to fail to perform their respective obligations under the agreements, we may have to incur substantial resources to enforce those agreements, and rely on legal remedies under applicable law, which may not be effective.

While we believe that the ownership structure of HollySys Holdings and the contractual agreements between the stockholders and HollySys Holdings do not violate existing PRC laws, rules and regulations, there are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws or regulations, including but not limited to the laws and regulations governing the validity and enforcement of these contractual agreements. If we or our PRC operating companies are found to violate existing or future PRC laws or regulations, the relevant regulatory authorities will have broad discretion in dealing with such violations, which would cause significant disruptions to our business operations or render us unable to conduct our business operations and may materially adversely affect our business, financial condition or results of operations.

Cessation of or changes to certain government incentives may have a material adverse effect on HollySys' operating results.

The Chinese government and various provincial governments have provided various incentives to high technology companies in order to encourage development of the domestic high technology industry. Such incentives include reduced tax rates and other measures. HollySys is currently enjoying a reduction of income tax rates under the central government and provincial government laws.

Beijing HollySys is registered in a high-tech zone located in Beijing and has been deemed as a high-tech company by the Beijing Commission of Science and Technology. As a result, it is entitled to a preferential enterprise income tax rate of 15%, so long as it continues to operate in the high-tech zone and maintains its high or new technology enterprise status.

Beijing HollySys Haotong (Haotong) is also registered in a high-tech zone located Beijing and has been deemed as a high-tech company by Beijing Commission of Science and Technology. Therefore, Haotong is also entitled to the favorable income tax rate at 15% so long as it continues to operate in the high-tech zone and maintains its high or new technology enterprise status as well. Under the favorable 15% of corporate income tax rate, Haotong received a 100% exemption of income tax for three years ending December 31, 2003 and a 50% exemption of income tax for three years from January 1, 2004 to December 31, 2006.

Hangzhou HollySys is registered as foreign investment enterprise conducting production functions. Under the provisional regulations, for Hangzhou HollySys, the 30% income tax rate belonging to the central government was reduced to 24%, and the 3% income tax rate belonging to the local government was reduced to 2.4%. Accordingly, the applicable income tax of Hangzhou HollySys was 26.4%. In accordance with the foreign investment enterprise income tax law, Hangzhou HollySys has entitled to receive a 100% exemption of income tax for two years and a 50% exemption of income tax for the next three years beginning the first year Hangzhou HollySys generates a taxable income on a continuing basis. During the fiscal years ended June 30, 2004 and 2005, Hangzhou HollySys was still under 100% exemption status.

As long as Beijing HollySys and Haotong continue to operate in the high-tech zone and maintain their high or new technology enterprise status, they will be entitled to 15% of corporate income tax rate. Any loss or reduction of the favorable tax rates would affect HollySys' operating results.

Normally, domestic-invested enterprises in China are subject to a 33% income tax rate. The Chinese government intends to eliminate differences between the applicable tax rates of domestic and foreign-invested enterprises, but the schedule for the unification of tax rates has not yet been established. If this happens, it may have a material adverse effect on Hangzhou HollySys.

As these tax benefits expire, the effective tax rate will increase significantly, and any increase in HollySys' enterprise income tax in the future could have a material adverse effect on our financial condition and results of operations.

Cessation of government subsidies may have an adverse effect on HollySys' operating results.

The local government in Beijing and Hangzhou have provided subsidies from value added tax collections to encourage Beijing HollySys', Haotong's and Hangzhou HollySys' research and development efforts and other subsidies to Beijing HollySys for enterprise development purposes. Early in fiscal 2005 the local government in Beijing provided specified subsidies to offset interest expenses to encourage Beijing HollySys' research and development efforts. The subsidies from value added tax collections will cease at the end of 2010. HollySys may not continue to receive other subsidies from the local government in the future. If governmental subsidies were reduced or eliminated, HollySys' after-tax income would be adversely affected.

Risks Related to the Ownership of our Stock

The market price of our shares is subject to price and volume fluctuations.

The markets for equity securities have been volatile. The price of our common shares may be subject to wide fluctuations in response to variations in operating results, news announcements, trading volume, general market trends both domestically and internationally, currency movements and interest rate fluctuations or sales of common shares by our officers, directors and our principal shareholders, customers, suppliers or other publicly traded companies. Certain events, such as the issuance of common shares upon the exercise of our outstanding stock options, could also materially and adversely affect the prevailing market price of our common shares. Further, the stock markets in general have recently experienced price and volume fluctuations that have affected the market prices of equity securities of many companies and that have been unrelated or disproportionate to the operating performance of such companies. These fluctuations may materially and adversely affect the market price of our common shares and the ability to resell shares at or above the price paid, or at any price.

Following the share purchase, a limited number of stockholders will collectively own over 77% of our common stock and may act, or prevent certain types of corporate actions, to the detriment of other stockholders.

Immediately after the consummation of the share purchase transaction, the former holders of HollySys Holdings will own more than 77% of our outstanding common stock. Accordingly, these stockholders (some of whom serve as, or are affiliated with, our directors and officers) may, if they act together, exercise significant influence over all matters requiring stockholder approval, including the election of a majority of the directors and the determination of significant corporate actions. This concentration could increase if the earnout shares are issued. This concentration could also have the effect of delaying or preventing a change in control that could otherwise be beneficial to our stockholders.

In the redomestication transaction, we will become a British Virgin Islands company and, because the rights of shareholders under British Virgin Islands law differ from those under U.S. law, you may have fewer protections as a shareholder.

Following the Redomestication Merger, our corporate affairs will be governed by our Memorandum and Articles of Association, the Business Companies Act of the British Virgin Islands and the common law of the British Virgin Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibility of the directors under British Virgin Islands law are to a large extent governed by the common law of the British Virgin Islands. The common law of the British Virgin Islands is derived in part from comparatively limited judicial precedent in the British Virgin Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the British Virgin Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under British Virgin Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the British Virgin Islands has a less developed body of securities laws as compared to the United States, and some states (such as Delaware) have more fully developed and judicially interpreted bodies of corporate law.

British Virgin Islands companies may not be able to initiate shareholder derivative actions, thereby depriving shareholders of the ability to protect their interests.

British Virgin Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. The circumstances in which any such action may be brought, and the procedures and defenses that may be available in respect to any such action, may result in the rights of shareholders of a British Virgin Islands company being more limited than those of shareholders of a company organized in the United States. Accordingly, shareholders may have fewer alternatives available to them if they believe that corporate wrongdoing has occurred. The British Virgin Islands courts are also unlikely to recognize or enforce against us judgments of courts in the United States based on certain liability provisions of U.S. securities law; and to impose liabilities against us, in original actions brought in the British Virgin Islands, based on certain liability provisions of U.S. securities laws that are penal in nature. There is no statutory recognition in the British Virgin Islands of judgments obtained in the United States, although the courts of the British Virgin Islands will generally recognize and enforce the non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. This means that even if shareholders were to sue us successfully, they may not be able to recover anything to make up for the losses suffered.

There may not be an active, liquid trading market for our common stock, and the trading price for our common stock may fluctuate significantly.

Our common stock is currently traded on the Over the Counter Bulletin Board, and we intend to file an application for listing on The Nasdaq National Market. Our listing application may not be accepted. If we do not succeed in securing a listing on the NASDAQ National Market, it could limit the ability to trade our common stock and result in a reduction of the price that can be obtained for shares being sold.

Compliance with all of the applicable provisions of the Sarbanes-Oxley Act will likely be a further condition of continued listing or trading. There is no assurance that if we are granted a listing on the Nasdaq National Market we will always be able to meet the Nasdaq National Market listing requirements, or that there will be an active, liquid trading market for our common stock in the future. Failure to meet the Nasdaq National Market listing requirements could result in the delisting of our common stock from the Nasdaq National Market, which may adversely affect the liquidity of our shares, the price that can be obtained for them, or both.

We may not pay cash dividends.

We have never paid any cash dividends on our common stock, and we may not pay cash dividends in the future. Instead, we expect to apply earnings toward the further expansion and development of our business. Thus, the liquidity of your investment is dependent upon your ability to sell stock at an acceptable price, rather than receiving an income stream from it. The price of our stock can go down as well as up, and fluctuations in market price may limit your ability to realize any value from your investment, including recovering the initial purchase price.

Special Note Regarding Forward-Looking Statements

This Memorandum contains certain forward-looking statements. When used in this Memorandum or in any other presentation, statements which are not historical in nature, including the words “anticipate,” “estimate,” “should,” “expect,” “believe,” “intend” “may,” “project,” “plan” or “continue,” and similar expressions are intended to identify forward-looking statements. They also include statements containing a projection of revenues, earnings or losses, capital expenditures, dividends, capital structure or other financial terms.

The forward-looking statements in this Memorandum are based upon our management’s beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to them. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us, which may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. These forward-looking statements are based on our current plans and expectations and are subject to a number of uncertainties and risks that could significantly affect current plans and expectations and our future financial condition and results.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Memorandum might not occur. We qualify any and all of our forward-looking statements entirely by these cautionary factors. As a consequence, current plans, anticipated actions and future financial conditions and results may differ from those expressed in any forward-looking statements made by or on our behalf. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented herein.

FORWARD-LOOKING STATEMENTS

We believe that some of the information in this proxy statement/prospectus constitutes forward-looking statements within the definition of the Private Securities Litigation Reform Act of 1995. However, the safe-harbor provisions of that act do not apply to statements made in this proxy statement/prospectus. You can identify these statements by forward-looking words such as “may,” “expect,” “anticipate,” “contemplate,” “believe,” “estimate,” “intends,” and “con” similar words. You should read statements that contain these words carefully because they:

- discuss future expectations;
- contain projections of future results of operations or financial condition; or
- state other “forward-looking” information.

We believe it is important to communicate our expectations to the Chardan stockholders. However, there may be events in the future that we are not able to predict accurately or over which we have no control. The risk factors and cautionary language discussed in this proxy statement/prospectus provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described by Chardan or the HollySys Parties

in its forward-looking statements, including among other things:

- the number and percentage of Chardan stockholders voting against the stock purchase proposal;
- changing interpretations of generally accepted accounting principles;

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outcomes of government reviews, inquiries, investigations and related litigation;

continued compliance with government regulations;

legislation or regulatory environments, requirements or changes adversely affecting the businesses in which HollySys Holdings and the HollySys Operating Companies are engaged;

fluctuations in customer demand;

management of rapid growth;

intensity of competition from other providers of crop seeds;

timing of approval and market acceptance of new products;

general economic conditions; and

geopolitical events and regulatory changes.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement/prospectus. All forward-looking statements included herein attributable to any of Chardan, the HollySys Parties or any person acting on either party's 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, Chardan and the HollySys Parties undertake no obligations to update these forward-looking statements to reflect events or circumstances after the date of this proxy statement/prospectus or to reflect the occurrence of unanticipated events.

Before you grant your proxy or instruct how your vote should be cast or vote on the adoption of the stock purchase agreement you should be aware that the occurrence of the events described in the "Risk Factors" section and elsewhere in this proxy statement/prospectus could have a material adverse effect on Chardan, HollySys Holdings, the HollySys Operating Companies or the combined company.

THE CHARDAN SPECIAL MEETING

Chardan Special Meeting

We are furnishing this proxy statement/prospectus to you as part of the solicitation of proxies by the Chardan board of directors for use at the special meeting in connection with the proposed stock purchase, Redomestication Merger and stock option plan. This document provides you with the information you need to know to be able to vote or instruct your vote to be cast at the special meeting.

Date, Time and Place

We will hold the special meeting at 10:00 a.m., Pacific Time, on _____, 2006 at 625 Broadway, Suite 1111, San Diego, California 92101, to vote on the proposals to approve the stock purchase agreement, the Redomestication Merger and stock option plan.

Purpose of the Special Meeting

At the special meeting, we are asking holders of Chardan common stock to:

- approve the stock purchase proposal;
- approve the Redomestication Merger proposal; and
- approve the stock option proposal.

The Chardan board of directors:

- has unanimously determined that the stock purchase proposal, the Redomestication Merger proposal and the stock option proposal are fair to and in the best interests of Chardan and its stockholders;
- has unanimously approved the stock purchase proposal, the Redomestication Merger proposal and the stock option proposal;
- unanimously recommends that Chardan common stockholders vote “FOR” the proposal to adopt the stock purchase agreement,
- unanimously recommends that Chardan common stockholders vote “FOR” the proposal to redomesticate in the British Virgin Islands; and
- unanimously recommends that Chardan common stockholders vote “FOR” the proposal to adopt the stock option plan.

Record Date; Who is Entitled to Vote

The “record date” for the special meeting is _____, 2006. Record holders of Chardan common stock at the close of business on the record date are entitled to vote or have their votes cast at the special meeting. On the record date, there were 7,000,000 outstanding shares of Chardan common stock.

Each share of Chardan common stock is entitled to one vote per share at the special meeting.

Pursuant to agreements with Chardan, any shares of Chardan common stock held by stockholders who purchased their shares of common stock prior to the initial public offering (except for shares those holders may have purchased in the public market) will be voted in accordance with the majority of the votes cast at the special meeting on the stock purchase and Redomestication Merger proposals.

Chardan’s outstanding warrants do not have any voting rights, and record holders of Chardan warrants will not be entitled to vote at the special meeting.

Voting Your Shares

Each share of Chardan common stock that you own in your name entitles you to one vote. Your proxy card shows the number of shares of Chardan common stock that you own.

There are three ways to vote your shares of Chardan common stock at the special meeting:

- You can vote by signing and returning the enclosed proxy card.* If you vote by proxy card, your “proxy,” whose name is listed on the proxy card, will vote your shares as you instruct on the proxy card. If you sign and return the proxy card but do not give instructions on how to vote your shares, your shares will be voted as recommended by the Chardan board “FOR” the adoption of the stock purchase proposal, the Redomestication Merger proposal, and the stock option plan proposal.
- You can vote by telephone or on the internet by following the telephone or Internet voting instructions that are included with your proxy card. If you vote by telephone or by the Internet, you should not return the proxy card.
- You can attend the special meeting and vote in person.* We will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or another nominee, you must get a proxy from the broker, bank or other nominee. That is the only way we can be sure that the broker, bank or nominee has not already voted your

shares.

IF YOU DO NOT VOTE YOUR SHARES OF CHARDAN COMMON STOCK IN ANY OF THE WAYS DESCRIBED ABOVE, IT WILL HAVE THE SAME EFFECT AS A VOTE AGAINST THE ADOPTION OF THE STOCK PURCHASE PROPOSAL AND THE REDOMESTICATION MERGER PROPOSAL, BUT WILL NOT HAVE THE EFFECT OF A DEMAND OF CONVERSION OF YOUR SHARES INTO A PRO RATA SHARE OF THE TRUST ACCOUNT IN WHICH A SUBSTANTIAL PORTION OF THE PROCEEDS OF CHARDAN'S INITIAL PUBLIC OFFERING ARE HELD OR A DEMAND FOR APPRAISAL RIGHTS UNDER DELAWARE LAW.

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Who Can Answer Your Questions About Voting Your Shares

If you have any questions about how to vote or direct a vote in respect of your Chardan common stock, you may call Dr. Richard D. Propper, Chardan's chairman, (619) 795-4627.

No Additional Matters May Be Presented at the Special Meeting

This special meeting has been called only to consider the adoption of the stock purchase proposal, the Redomestication Merger proposal and the stock option proposal. Under Chardan's by-laws, other than procedural matters incident to the conduct of the meeting, no other matters may be considered at the special meeting, if they are not included in the notice of the meeting.

Revoking Your Proxy

If you give a proxy, you may revoke it at any time before it is exercised by doing any one of the following:

- You may send another proxy card with a later date;
- You may notify Dr. Propper, Chardan's chairman, in writing before the special meeting that you have revoked your proxy; and
- You may attend the special meeting, revoke your proxy, and vote in person, as indicated above.

Vote Required

The presence, in person or by proxy, of a majority of all the outstanding shares of common stock constitutes a quorum at the special meeting. Proxies that are marked "abstain" and proxies relating to "street name" shares that are returned to Chardan but marked by brokers as "not voted" will be treated as shares present for purposes of determining the presence of a quorum on all matters. The latter will not be treated as shares entitled to vote on the matter as to which authority to vote is withheld by the broker ("broker non-votes"). If you do not give the broker voting instructions, under the rules of the NASD, your broker may not vote your shares on the proposals to approve the stock purchase, the Redomestication Merger or the stock option plan.

The approval of the stock purchase and Redomestication Merger proposals will require the affirmative vote of the holders of a majority of the Chardan common stock outstanding on the record date. Because each of these proposals require the affirmative vote of a majority of the shares of common stock outstanding and entitled to vote, abstentions and shares not entitled to vote because of a broker non-vote will have the same effect as a vote against the proposal.

For consummation of the stock purchase agreement, the Redomestication Merger proposal must be approved by the stockholders. For the Redomestication Merger to be implemented, the stock purchase proposal must be approved by the stockholders.

The approval of the stock option plan will require the affirmative vote of a majority of the Chardan common stock present and entitled to vote at the meeting. Abstentions are deemed entitled to vote on the proposal, therefore, they have the same effect as a vote against the proposal. However, broker non-votes are not deemed entitled to vote on the proposal, so, they will have no effect on the vote on the proposal.

Conversion Rights

Any stockholder of Chardan holding shares of common stock issued in Chardan's initial public offering who votes against the stock purchase proposal may, at the same time, demand that Chardan convert his or her shares into a pro

rata portion of the trust account as of the record date. If the stockholder makes that demand and the stock purchase is consummated, Chardan will convert these shares into a pro rata portion of funds held in the trust account plus interest, as of the record date.

The closing price of Chardan's common stock on _____, 2006 (the record date) was \$_____ and the per-share, pro-rata cash held in the trust account on that date was approximately \$_____. Prior to exercising conversion rights, Chardan stockholders should verify the market price of Chardan's common stock as they may receive higher proceeds from the sale of their common stock in the public market than from exercising their conversion rights, if the market price per share is higher than the conversion price.

If the holders of 1,150,000 or more shares of common stock issued in Chardan's initial public offering (an amount equal to 20% or more of these shares), vote against the stock purchase and demand conversion of their shares, Chardan will not be able to consummate the stock purchase.

If you exercise your conversion rights, then you will be exchanging your shares of Chardan common stock for cash and will no longer own these shares. You will be entitled to receive cash for these shares only if you continue to hold these shares through the effective time of the stock purchase and then tender your stock certificate to the combined company.

Appraisal Rights

Under Delaware corporate law, the Redomestication Merger of Chardan with HLS causes the stockholders of Chardan to have appraisal rights in connection with the transactions for which approval is sought. This right is separate from the conversion rights of the holders of shares of Chardan common stock issued in the initial public offering. However, because the exercise of the appraisal right and the conversion rights both require a tender of the holder's shares to Chardan, only one right may be elected in respect of the shares. See Annex H for more information about appraisal rights.

Solicitation Costs

Chardan is soliciting proxies on behalf of the Chardan board of directors. This solicitation is being made by mail but also may be made by telephone or in person. Chardan and its respective directors, officers and employees may also solicit proxies in person, by telephone or by other electronic means. In addition, the representatives and officers of the HollySys Parties are soliciting proxies and may solicit proxies in person, by telephone or by other electronic means. These persons will not be paid for these solicitation activities.

Chardan has not hired a firm to assist in the proxy solicitation process, but may do so if it deems this assistance necessary. Chardan will pay all fees and expenses related to the retention of any proxy solicitation firm.

Chardan will ask banks, brokers and other institutions, nominees and fiduciaries to forward its proxy materials to their principals and to obtain their authority to execute proxies and voting instructions. Chardan will reimburse them for their reasonable expenses.

Stock Ownership

At the close of business on the record date, Dr. Richard D. Propper, Kerry S. Propper, Jiangnan Huang, and Li Zhang, beneficially owned and were entitled to vote approximately 1,250,000 shares of Chardan common stock, or approximately 17.9% of the then outstanding shares of Chardan common stock, which includes all of the shares held by the directors and executive officers of Chardan and their affiliates. Those persons, who were stockholders of Chardan prior to its initial public offering of securities, have agreed to vote their shares (except for any shares they may have acquired in the public market) on the stock purchase and Redomestication Merger proposals in accordance with the majority of the votes cast by the holders of shares issued in Chardan's initial public offering.

Fairness Opinion

Chardan did not obtain a fairness opinion in respect of the acquisition of HollySys or the Redomestication Merger.

CONSIDERATION OF THE STOCK PURCHASE TRANSACTION

The following discussion of the principal terms of the stock purchase agreement dated February 2, 2006 among Chardan and the HollySys Stockholders is subject to, and is qualified in its entirety by reference to, the stock purchase agreement. A copy of the stock purchase agreement is attached as an annex to this proxy statement/prospectus and is incorporated in this proxy statement/prospectus by reference.

General Description of the Stock Purchase

Pursuant to the stock purchase agreement, Chardan has established a wholly owned subsidiary, HLS Systems International Ltd., under the laws of the British Virgin Islands, and Chardan will merge with and into HLS concurrently with the closing of the stock purchase. HLS will be the surviving entity, and the separate corporate existence of Chardan will cease at the effective time of the merger. Simultaneously with the merger, HLS will purchase all of the issued and outstanding stock of HollySys Holdings, which in turn will own, or will have acquired the rights to control, 74.11% of the outstanding stock of Beijing HollySys Co., Ltd. and 89.64% of the outstanding stock of Hangzhou HollySys Automation Co., Ltd., including 29.64% owned by virtue of the fact that Beijing HollySys owns 40% of Hangzhou HollySys. We refer to HLS Systems International Ltd., after giving effect to completion of the stock purchase, as HLS or the combined company. As a result of the stock purchase, the former owners of HollySys Holdings will own approximately 77% of the outstanding shares of the combined company's common stock, assuming no conversions or exercise of appraisal rights and before any issuance of shares pursuant to the earn out provisions of the stock purchase agreement.

Background of the Stock Purchase

The terms of the stock purchase agreement are the result of arm's-length negotiations between representatives of Chardan and the HollySys Stockholders. The following is a brief discussion of the background of these negotiations, the stock purchase and related transactions.

Chardan was formed on March 10, 2005 to serve as a vehicle to accomplish a business combination with an unidentified operating business in the PRC that has its primary operating facilities located in any city or province north of the Yangtze River. Chardan completed an initial public offering on August 10, 2005, in which it raised net proceeds of approximately \$30 million. Of these net proceeds, approximately \$25.8 million were placed in a trust account immediately following the initial public offering and, in accordance with Chardan's Certificate of Incorporation, will be released either upon the consummation of a business combination or upon the liquidation of Chardan. Chardan must liquidate unless it has consummated a business combination by February 10, 2007. If a letter of intent, agreement in principle or a definitive agreement to complete a business combination was executed but the transaction was not consummated prior to February 10, 2005, then it is not required to liquidate unless the business combination contemplated by such letter of intent, agreement in principle or definitive agreement is not consummated by August 10, 2007.

In mid-August 2005, promptly after completing CNCAC's public offering, the officers and directors of CNCAC traveled to China to begin the initial interviewing and screening process to locate a company with which to effect a business combination. CNCAC initially sought to identify acquisition candidates principally through the efforts of Huang Jiangnan and Li Zhang, officers and directors of CNCAC. Both of these persons have extensive contacts through the Chinese business and legal community in the PRC. In addition, CNCAC began looking at companies introduced by both the Guantao Law Firm and Chum Investment Corporation. They helped to arrange meetings with several candidates during that approximately ten-day trip. Among the candidates that were interviewed during that trip was HollySys.

To further assist CNCAC in locating and evaluating companies in the PRC, CNCAC (through Huang Jiangnan, an officer and director of CNCAC) contacted Greatace Consultants Limited ("Greatace"), a Chinese business acquisition consulting firm, on August 28, 2005 to seek its services in locating potential targets. The principals of Greatace have been known to Mr. Huang for many years. On September 1, 2005, CNCAC engaged Greatace, to assist it in identifying potential acquisition candidates, preparing background investigations, industry analysis and due diligence reports, among other things. Under the terms of the agreement, Greatace will be paid a total of \$200,000, payable in 4 installments. The first three installments of \$22,233 each are payable as milestone payments for a due diligence report on the first company that CNCAC targets as an acquisition candidate. The remaining \$133,300 will be paid upon the successful consummation of a business transaction with an operating entity in the PRC.

The services that Greatace provided included assisting CNCAC in identifying acquisition opportunities; assisting in preparing and executing required confidentiality, market stand-off and similar agreements; compiling preliminary information about merger candidates; performing financial due diligence and analysis; recommending acquisition structures; assessing the information about the potential target that is available and working with accountants and legal staff to prepare for a business combination, including agreement negotiation.

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Greatace commenced identifying and screening acquisition candidates in early September 2005. Greatace used its knowledge of Chinese companies and its network of contacts, screening potential companies based on CNCAC's criteria.

Greatace and CNCAC selected five companies as potential candidates for a business combination, and CNCAC requested preliminary reports from Greatace evaluating of the potential targets. On October 7, 2005, Greatace and the CNCAC team held a meeting to review the data collected on various potential targets and meet with representatives of some of these companies. On the basis of the information provided by Greatace in the review and meetings, in October 2005, CNCAC selected HollySys as the candidate with which to pursue an agreement.

The CNCAC representatives first met with HollySys' President, Dr. Wang Changli and Chairman, Madame Qiao Li, on August 17, 2005 and again on August 22, 2005, for preliminary discussions about a potential business combination. For some time thereafter, the parties remained in contact through occasional phone calls and email communications, both directly and through their respective representatives.

The first formal meeting to discuss this transaction was held on October 10, 2005, in Beijing, China. CNCAC management, HollySys management and an advisory firm for HollySys, Chum Investment Corporation, exchanged information about CNCAC and HollySys and suggested a general structure and terms of an acquisition by CNCAC. In addition, preliminary issues of due diligence, exchange of information and pricing were also discussed.

During its discussions with HollySys, CNCAC and Greatace continued to evaluate other potential candidates for a business combination.

On November 18, 2005, Dr. Propper, Mr. Huang and Mr. Zhang from CNCAC and the HollySys Stockholders, including representatives of Chum Investment Corporation, met in Beijing for further discussions about the respective businesses and terms of the transaction. The parties were in general agreement about the acquisition terms, but at this meeting they began to discuss various specifics and raised topics related to the acquisition and disclosure process.

After two days of negotiations and due diligence review in Beijing from November 18 to November 19, 2005 (by and among Dr. Propper, Mr. Zhang Li and Mr. Jiangnan Huang of CNCAC and Dr. Wang Changli and Madame Qiao Li of HollySys), CNCAC signed a non-binding memorandum of understanding on November 27, 2005 with respect to acquiring a controlling interest in HollySys. This memorandum set forth the following:

- the reorganization of HollySys which was to take into account the best tax arrangements for all parties;
- the consideration to be paid for HollySys, which is reflected in the stock purchase agreement;
- the terms of the additional consideration to be paid over time based on performance criteria;
- the desire for a stock option plan; and
- the inclusion of certain HollySys Stockholders on the board of directors of the surviving corporation.

Promptly after the execution of the memorandum of understanding, CNCAC's United States counsel prepared a draft of the stock purchase agreement and sent it to counsel for HollySys. In addition, the Chinese counsel of CNCAC consulted with Chinese counsel for HollySys and commenced discussion of the structure of the transaction and the anticipated steps to be completed before agreement could be reached.

During the period between November 28, 2005 and December 10, 2005, counsel exchanged emails about various points in the agreements and continued to modify them and exchanged drafts of documents. Counsel and the accountants for all the parties conducted legal and financial due diligence and negotiated points in the agreements.

During this period, representatives of CNCAC and HollySys also conducted further due diligence.

On December 10, 2005, there was a meeting at the offices of CNCAC's United States counsel, DLA Piper Rudnick Gray Cary, in San Diego, to negotiate the final terms of stock purchase agreement. Dr. Propper and Mr. Zhang of CNCAC and CNCAC's United States counsel attended the meetings in person. Dr. Wang Changli and Madame Qiao Li of HollySys, Mr. Song Xuesong, executive director of Chum Investment Corporation, advisor to HollySys, and Mr. Cui and Mr. Sun, partners of Guantao Law Firm, counsel to HollySys, attended the meeting in person as well. Substantial progress was made on the agreements at that time. Following the meetings in San Diego, legal counsel for the respective parties continued to exchange comments and drafts of the contract documents for the transaction.

On December 19, 2005, representatives of Greatace met with the board of directors of CNCAC to give a report of their due diligence of HollySys and analysis of the business in which HollySys operates. At the meeting were all the board members of CNCAC and Mr. Gu Robert, representing Greatace, who made the report. The board of directors unanimously resolved to proceed with the acquisition process and continue to work towards execution of a definitive stock purchase agreement.

On January 31, 2006 the board of directors of CNCAC met to review the transaction documents and evaluate and approve the acquisition of HollySys. The board of directors reviewed the latest forms of stock purchase agreement, the stock consignment agreements, and the employment agreements. The board of directors also reviewed the disclosure schedules to the stock purchase agreement. After further review of the due diligence materials, the foregoing were unanimously approved, subject to final negotiation and modification, and the board determined to recommend the approval of the stock purchase agreement, Redomestication Merger and related transactions and the stock option plan to the stockholders.

While Dr. Wang and the other representatives of HollySys were in San Diego from December 10, 2005 to December 14, 2005, Dr. Propper and counsel for CNCAC reviewed with them the obligations of being a reporting company, including compliance with the reporting requirements of the federal securities laws, accounting procedures and Sarbanes Oxley requirements, press release disclosure and timing, shareholder communications, website disclosure, financial public relations, NASDAQ compliance and transfer agent requirements. Dr. Wang asked if Chardan Capital LLC could help the post-transaction company in advising and complying with all the various requirements until management and the service providers in the PRC were familiar with the rules and regulations and public company demands. On December 10, 2005, at a meeting in the offices of CNCAC's legal counsel, the consulting arrangement between Chardan Capital LLC and HollySys was agreed to. Because it is to last only until the HollySys management was familiar with the requirements of being public, it will be terminable at HollySys' discretion, without penalty. The monthly fee was determined to be \$30,000. This arrangement has not been reduced to a written agreement.

The stock purchase agreement was signed on February 2, 2006. Chardan issued a press release that date and filed a Current Report on Form 8-K on February 3, 2006 announcing the execution of the agreement and discussing the terms of the stock purchase.

Board Consideration and Approval of Transaction

While no single factor determined the final agreed upon consideration in the stock purchase, Chardan's board of directors reviewed various industry and financial data, including certain valuation analyses and metrics compiled by members of the board and by Greatace in order to determine that the consideration to be paid to the HollySys Stockholders was reasonable and that the stock purchase was in the best interests of Chardan's stockholders.

Greatace, a Chinese consulting firm hired by Chardan to assist in identifying and screening candidates for a business combination, conducted a due diligence review of HollySys and the HollySys Operating Companies that included an industry analysis, a description of HollySys' existing business model and business operations, and financial projections in order to enable the board of directors to ascertain the reasonableness of this range of consideration. Throughout the negotiation process, Greatace continued to assemble and review relevant due diligence materials and, on November 19, 2005, delivered a due diligence package that included the information regarding HollySys and the HollySys Operating Companies that Greatace had gathered and prepared. During its negotiations with the HollySys Stockholders, Chardan did not receive services from any financial advisor other than Greatace.

Interest of Chardan Directors and Officers in the Stock Purchase

In considering the recommendation of the board of directors of Chardan to vote for the proposals to approve the stock purchase agreement, the Redomestication Merger and the stock option plan, you should be aware that certain members of the Chardan board have agreements or arrangements that provide them with interests in the stock

purchase that differ from, or are in addition to, those of Chardan stockholders generally. In particular:

- if the stock purchase is not approved and Chardan fails to consummate an alternative transaction within the time allotted pursuant to its Certificate of Incorporation, Chardan would be required to liquidate. In such event, the shares of common stock held by Chardan's directors and officers would be worthless because Chardan's directors and officers are not entitled to receive any of the liquidation proceeds, and any warrants they hold will expire worthless.

- Chardan's executives and directors own a total 1,250,000 shares of Chardan common stock that have a market value of \$_____ based on Chardan's share price of \$_____ as of March __, 2006. However, as Chardan's directors and executives are contractually prohibited from selling their shares prior to August 2, 2008 (during which time the value of the shares may increase or decrease), it is impossible to determine what the financial impact of the stock purchase will be on Chardan's directors and executives;
- the transactions contemplated by the stock purchase agreement provide that Kerry S. Propper will be a director of HLS;
- after completion of the stock purchase, Chardan Capital LLC, an affiliate of Dr. Propper, Mr. Zhang and Mr. Huang, will provide a variety of ongoing services to HollySys. Such services will be provided on a month-to-month basis terminable at will by HollySys without penalty, at a cost to HollySys of \$30,000 per month. There is no written agreement governing the services to be provided, which will be on a non-exclusive basis and include advice and help in meeting US public reporting requirements and accounting standards, Sarbanes-Oxley compliance, corporate structuring and development, stockholder relations, corporate finance and operational capitalization and such other similar services as suggested and agreed to by Chardan Capital, LLC.

Chardan's Reasons for the Stock Purchase and Recommendation of the Chardan Board

The Chardan board of directors concluded that the stock purchase agreement with the HollySys Parties is in the best interests of Chardan's stockholders. The Chardan board of directors did not obtain a fairness opinion.

Each member of Chardan's board of directors has extensive experience in performing due diligence of acquisition targets and in valuing companies. Three of the directors, Dr. Propper and Messrs. Li and Huang, are currently principals in Chardan Capital LLC, a strategic financial and management consulting company that focuses on identifying attractive Chinese companies and in structuring transactions involving those companies. One director, Mr. Kerry Propper, is the Chief Executive Officer of Chardan Capital Markets, a registered NASD broker dealer.

The Chardan board of directors considered a wide variety of factors in connection with its evaluation of the stock purchase. In light of the complexity of those factors, the Chardan board of directors did not consider it practicable to, nor did it attempt to, quantify or otherwise assign relative weights to the specific factors it considered in reaching its decision. In addition, individual members of the Chardan board may have given different weight to different factors.

In considering the stock purchase, the Chardan board of directors gave considerable weight to the factors discussed below.

HollySys' and the HollySys Operating Companies' record of growth and expansion and high potential for future growth

Important criteria to Chardan's board of directors in identifying an acquisition target were that the company have established business operations, that it was generating current revenues, and that it had what Chardan believes to be a potential to experience growth in the future. Chardan's board of directors believes that HollySys and the HollySys Operating Companies have in place the infrastructure for good business operations, a large and growing customer base, technological capabilities and brand name recognition. HollySys commenced business operations in 1993, and it has experienced an average annual revenue growth of greater than 47% from 2003 through 2005. The fiscal 2005 revenues were approximately \$79.6 million, and they have estimated revenues for 2006 of approximately \$110 million.

Although revenue projections are inherently uncertain, Chardan's board of directors believed, and continues to believe, the projections for HollySys' business are reliable, based in part on its expected revenues, its overall business practices, the widespread acceptance of its latest generation of products and its strategy of targeting sectors of the Chinese

economy that the government has identified as top growth priorities, such as rail transportation and nuclear power.

This record of significant growth helped to convince Chardan's board of directors that a business combination with HollySys would be in the best interests of Chardan's stockholders.

Chardan's board of directors believes that HollySys and the HollySys Operating Companies have the ability to continue growth because:

- HollySys has established itself as a leader in the Chinese automation industry in the twelve years it has been in operation;
- China's rapid industrial expansion, which creates demand for HollySys' products, is expected to continue for the foreseeable future;
- HollySys has a strong presence in DCS automation markets, which are also expanding markets as China's continuing economic growth and its shift toward a consumer economy;
- HollySys' emphasis on maintaining high levels of engineering staff and its rapid development of new products should enable it to continue to enhance its position relative to its international competitors;
- HollySys intends to enter the international market, which will significantly increase the opportunity for sales of its products, taking advantage of the continued availability of China's comparative cost advantages.

Based on its review of the HollySys Operating Companies historical financial statements and their business model and relationships, Chardan's board of directors believes that HollySys Operating Companies' products will continue to be attractive to Chinese customers. HollySys bases its products on the latest electronics and information system technology, which improves reliability and lowers production costs, helping HollySys to maintain and even to improve its margins.

HollySys represents an opportunity to invest in a growing, dynamic industry

Another criterion important to Chardan's board of directors in identifying an acquisition target was that the company be in an emerging or expanding industry with potential for growth. While the automation industry has been in existence for a long time, there are several aspects of the position that HollySys enjoys that give it the opportunity for significant growth. Among those factors is the shift to digital technologies, which the widespread adoption of computers has enabled. This permits a broader application of control technologies to more processes and more aspects of each process, which not only opens up new segments, but also leads to opportunities for system upgrades and replacements. The industrial automation segment of the Chinese economy, which is the principal market for HollySys' products, is expected to continue, and that will give HollySys the opportunity to expand its customer base. Even globalization has contributed to growth opportunities, as manufacturers face increasing pressure to deliver consistent quality at low cost, efficiencies that they can achieve only with the use of sophisticated control systems such as those that HollySys designs and sells.

The experience of HollySys' management

Another criterion important to Chardan's board of directors in identifying an acquisition target was that the company have a seasoned management team with specialized knowledge of the markets within which it operates and the ability to lead a company in a rapidly changing environment. Chardan's board of directors believes that HollySys' management has demonstrated that ability, addressing critical issues such as the development of its product platform, its emphasis on rapid product development and deployment and its savvy marketing strategy, which targets its products and services to China's most rapidly growing segments. By utilizing its growing revenues to expand its market share and develop additional products, HollySys' management seems to have demonstrated a commitment to a strategy that has given it a significant presence in the automation and controls industry in the PRC. The excellent English skills of HollySys' chief executive, Wang Changli, will also be an important factor in the company's plans to expand internationally.

HollySys' ability to execute its business plan, even with the risk that a significant number of Chardan's public stockholders would vote against the stock purchase and exercise their conversion rights

Chardan's board of directors considered the risk that the current public stockholders of Chardan would vote against the stock purchase and demand to redeem their shares for cash upon consummation of the stock purchase, thereby depleting the amount of cash available to the combined company following the stock purchase or cause a condition of the stock purchase agreement not to be met. Chardan structured the payment terms in the stock purchase agreement to reflect this possibility by deferring some of the cash portion of the consideration. Chardan's board of directors deemed this risk to be no worse with regard to HollySys than it would be for other target companies and believes that HollySys will still be able to implement its business plan, even if the maximum number of shares that can be converted into a pro rata portion of the trust account and still have the transaction proceed are so converted.

Due Diligence Information Materials

In performing the analysis described above, Chardan's board of directors also reviewed an information statement prepared by Chardan's consultants, Greatace, in connection with its search for a suitable target company.

The Greatace material provided information on the history and growth of HollySys, a detailed review of its products and markets (both current and planned), and information regarding the company's competitive position in the Chinese market, both with respect to international competitors and domestic Chinese competitors.

The Greatace due diligence report examined the automation industry in China and provided a market analysis. The report described the growth of the Chinese automation industry, particularly the Distributed Control Systems ("DCS") market. The report reviewed the market segments within the automation industry that HollySys had identified as areas of focus, and noted that HollySys has developed different product lines designed to meet the specific needs of each of these market segments. The report provided a market analysis and description of trends in these market segments and a description of HollySys' background and technology in these markets. A separate section examined the other major companies in these markets and HollySys' competition in the automation system industry, particularly in the DCS market, the nuclear power market and the railway transportation market.

The Greatace due diligence report described HollySys' core technologies and how it planned to implement its corporate business strategy toward becoming the market leader in the Chinese automation industry. A section of the report summarized HollySys' operations within its principal business units, including how they generate revenue, the profitability, growth rate and the relevant economic factors that affect their results.

The report then examined HollySys' business operations, including employee compensation and benefits, customer geographic locations and industries, sales and distribution channels, product research and development, pricing policy, advertising and marketing, material procurement control and supply, quality control and project management. The report provided additional information regarding HollySys' financial performance from 2003 to 2005 by analyzing the financial statements for those years. The report also discussed projected operating results for 2006 to 2010 provided by HollySys.

The report noted that the HollySys Stockholders had warranted to Greatace that the HollySys Operating Companies are not involved in or threatened with any legal proceedings. The report provided information on the intellectual property owned by HollySys, including eight licenses and trade certificates, forty-four patents, nine copyrights and twenty-one trademarks. The report also provided information on the real property owned by the HollySys Operating Companies.

Mr. Kerry Propper, a director and officer of Chardan, prepared for the board of directors an analysis of the post-transaction value of the HollySys Operating Companies. He analyzed comparable companies in the automation and controls markets, taking into account their relative market presences and maturity. He prepared a list of comparative price/earnings ratios of these companies and compared them to the price/earnings of the HollySys Operating Companies and their anticipated price/earnings. The valuation for the future of the HollySys Operating Companies was based on various assumptions, including projected sales, assumed margins, and projected net income. Capital resources were taken into account, based on the capital of the company after the acquisition and for income and reinvestment, and for the potential of exercise of outstanding warrants of Chardan. Based on this analysis, Mr. Propper concluded that, comparatively speaking, the enterprise value of the HollySys Operating Companies, immediately after the acquisition, was favorable. On the basis of the analysis, he concluded that the board of directors, from an economic point of view, should consider the acquisition of the HollySys Holdings.

Chardan's board of directors also considered the methods by which HollySys Holdings may own or control Beijing HollySys. In structuring the transaction and in preparing the documentation, Chardan consulted with its legal counsel, which has offices in the PRC, for advice on the acquisition of stock that is subject to transfer restrictions. The

methodology of stock consignment agreements is widely used in these instances, and Chardan's counsel had them reviewed in its Beijing office. Although the agreements are initially control arrangements, they provide for transfer of title in the future if and when the restrictions are no longer applicable, without any further consideration. Moreover, the consignment agreements prevent the title holder from transferring the shares to another or taking any action limiting the rights of the consignee. The consignment agreement freezes the ownership in the hands of the record/title owner, but gives the consignee, all the incidents of beneficial ownership, including voting, dividend, director nomination, management selection and every other right of ownership other than record ownership. Transfer of record ownership is subject to the directions of the consignee, in this case HollySys Holdings, so long as it is a permitted transfer and transferee is acceptable under PRC law. The stock purchase agreement provides for opinions of PRC counsel on the validity and enforceability of all the agreements by the HollySys Stockholders. On the basis of its discussions with counsel, the Chardan board of directors believed that the restrictions and use of stock consignment agreements were an acceptable business strategy for obtaining an acquisition opportunity in the PRC.

Satisfaction of 80% Test

It is a requirement that any business acquired by Chardan have a fair market value equal to at least 80% of its net assets at the time of acquisition, which assets shall include the amount in the trust account. Based on the financial analysis of HollySys generally used to approve the transaction, the Chardan board of directors determined that this requirement was met and exceeded.

To determine the value of HollySys, the board compiled a list of ten comparable engineering/systems automation companies whose stock is traded in the public markets. These companies were broken into three tiers based on their market capitalization to delineate their relative market presence and cycle maturity. Tier one included companies with market capitalization of over fifty billion dollars; tier two included companies with market capitalizations between ten billion and fifty billion dollars; and tier three included companies with less than ten billion of market capitalization. The board then examined the price earnings ratio to these companies. The overall average price earnings ratio for the 10 companies was 20.16. The average price earnings ratio was 19.54 for the tier two companies. The board used the 19.54 price earnings ratio of the tier two companies because it was the average and, therefore, the most representative.

The companies used for this analysis were as follows:

Name	Exchange	Price (USD)	Market Cap (MM)	Shares Outstanding (MM)	Enterprise Value (MM)	Price Earnings Ratio (P/E)
GENERAL ELECTRIC CO	NYSE	34.85	367,495.16	10,600.81	603,153.06	20.15
SIEMENS AG	XETRA	73.05	65,091.58	891.09	68,134.61	17.54
Tier 1 Average						18.85
HONEYWELL INTERNATIONAL						
INTERNATIONAL	NYSE	36.63	31,246.48	855.15	35,110.02	17.44
EMERSON ELECTRIC CO	NYSE	62.63	26,097.82	413.09	28,947.99	18.58
ABB LTD	VIRT-X	6.54	13,549.39	2,028.41	14,899.11	22.59
Tier 2 Average						19.54
ROCKWELL AUTOMATION INC						
AUTOMATION INC	NYSE	48.71	8,960.89	181.60	9,128.94	19.18
EATON CORP	NYSE	59.90	9,026.93	147.40	10,597.26	12.20
YOKOGAWA ELECTRIC	TOKYO	13.54	3,439.94	243.23	3,973.58	33.59
INVENSYS PLC	LONDON	0.19	1,069.83	5,686.36	2,856.25	NA
ECHELON CORP	NASDAQ	6.88	280.62	40.12	120.97	NA
Tier 3 Average						21.66
Total Average						