

HLS SYSTEMS INTERNATIONAL LTD
Form S-4/A
September 01, 2006

As filed with the Securities and Exchange Commission on September 1, 2006

Registration No. 333-132826

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**AMENDMENT NO. 2 TO
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
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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:

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. o _____

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. o _____

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 all of the issued and outstanding stock of Gifted Time Holdings, Limited (“Gifted Time Holdings”), a British Virgin Islands company that owns a controlling interest in operating companies in the People’s Republic of China, known collectively as “HollySys,” 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, as amended among Chardan and the stockholders of Gifted Time Holdings (the “Gifted Time Stockholders”) and the transactions contemplated thereby. The Gifted Time Stockholders have already approved the stock 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 as part of the acquisition of Gifted Time Holdings; and
3. to approve the Chardan 2006 Equity 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 following the closing of the stock purchase will initially be persons who were designated by the Gifted Time 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 has applied to have its units, common stock and warrants traded on the Nasdaq Global 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 stock purchase agreement is not approved. The approval of the stock option plan in proposal 3 is not a condition to consummation for the stock purchase agreement and the redomestication merger.

Pursuant to the stock purchase agreement, the Gifted Time Stockholders 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 Gifted Time Holdings. A variable portion of the cash payment (ranging from \$3,000,000 up to \$7,000,000), will be deferred until Gifted Time Holdings' 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 stock 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 Gifted Time Stockholders 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-none 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 stock purchase agreement and the redomestication merger. The approval of the stock purchase agreement is subject to an additional condition, that 20% or more of the shares issued in Chardan's initial public offering (the "Public Shares") do not both vote against the approval of the stock purchase agreement and are not 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 stock 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 stock 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 stock 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 stock 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. If HLS hits its after-tax profits for each of the fiscal years ending June 30, 2007 through 2010, an additional 8,000,000 shares will be issued to the Gifted Time Stockholders, which assuming there are no other issuances of stock or exercise of outstanding warrants, would reduce the percentage of HLS held by Chardan's current shareholders to approximately 18%.

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. HLS has applied for listing on the Nasdaq Global 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 stock purchase agreement, the redomestication merger and the stock option plan, the board of directors of Chardan has determined that the stock 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 stock 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 stock 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.

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

**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, as amended, among Chardan, and the stockholders of a holding company known as Gifted Time Holdings, Limited (“Gifted Time Holdings”), a British Virgin Islands company that owns or controls operating companies in the People’s Republic of China collectively known as “HollySys”, 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; 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, Limited, a holding company (“Gifted Time 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 Gifted Time Holdings held by the stockholders (the “Gifted Time 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. Gifted Time 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 has applied to have its securities listed on the Nasdaq Global 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 Gifted Time Holdings, the 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 ____.**

The acquisition of Gifted Time Holdings and the 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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This proxy statement/prospectus incorporates important business and financial information about Chardan, Gifted Time Holdings 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 Gifted Time Holdings 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 Gifted Time Holdings, 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 1996. 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 Gifted Time Holdings 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 Gifted Time Holdings 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, as amended, 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?
- 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. However, as a result of the issuance of HLS shares in the stock purchase, the ownership interests of Chardan stockholders will be diluted so that they will only own approximately 23% of HLS. If additional shares are issued to the Gifted Time Stockholders as additional consideration, or if the outstanding warrants are exercised, the current Chardan stockholders will experience further dilution in their ownership of the company. We have also agreed to issue up to 8,000,000 additional shares to the Gifted Time Shareholders if HollySys' earnings for fiscal years 2007 through 2010 reach certain targets. Also, there are outstanding warrants to purchase 12,000,000 additional shares of Chardan stock. If some or all of the incentive shares are issued, and if some or all of the warrants are exercised, then the percentage of Chardan that its current shareholders will own will be less than 23%.

- 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 Gifted Time Stockholders 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 Gifted Time Stockholders by reason of 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. If HLS issues the additional shares as additional consideration to the Gifted Time Stockholders, then the Gifted Time Stockholders will own approximately 82% of the issued and outstanding common stock of HLS, and existing Chardan stockholders will own approximately 18% of the issued outstanding common stock of HLS. The foregoing discussion assumes that none of the outstanding warrants to acquire common stock of Chardan will be exercised. If some or all of the warrants are exercised, then the current Chardan stockholders will be diluted further.
- 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 Gifted Time Holdings. 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 Gifted Time 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. Holders of warrants issued by Chardan do not have any 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 you do not make a demand to exercise your conversion rights at the time you vote against the stock purchase proposal (or if you do not vote against the stock purchase proposal), you will lose your conversion rights, and that loss cannot be remedied. 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 Gifted Time 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.

Q.Under the stock purchase agreement, what obligations will be owed to the Gifted Time Stockholders following the consummation of the stock purchase?

A. HLS will be obligated to pay the Gifted Time Stockholders the deferred purchase price (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 exercises their conversion rights) and the additional stock consideration based on the after-tax profits of HLS. The deferred cash purchase price will not be payable until HLS receives at least \$60 million in subsequent financing or HLS generates positive after-tax cash flow equal to twice the deferred amount.

Q.Who will manage the surviving company?

A. The surviving 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, will also become a director of HLS. The four additional directors will be Jerry Zhang, Youxian Sun, Lewis Solomon and Leonard Hafetz.

Q. A.

Do I have dissenter or appraisal rights?

In connection with the redomestication merger, the Chardan stockholders have appraisal rights under Delaware corporate law.

Q.How do I secure my dissenter or appraisal rights?

A. To secure your dissenter or appraisal rights, you must vote against the redomestication merger and file a demand for appraisal rights with Chardan before the vote on the redomestication merger. Details about the required contents of the appraisal demand, the deadlines for exercising rights and the process for determining the value of the shares are contained in the section “Chardan Redomestication Merger - Appraisal Rights.”

- 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 for me?
- 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.
- 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. A.

Who can help answer
my questions?

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

Gifted Time 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 Gifted Times Holdings' subsidiary 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.

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 June 30, 2006, Chardan had incurred a total of approximately \$1,161,000 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 \$311,000 in travel expenses, office expenses of \$82,500 payable to Chardan Capital LLC, approximately \$488,000 in professional fees and premiums for general and officer and director insurance of approximately \$64,000. 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.

Gifted Time Holdings

Business Operations

Gifted Time Holdings was formed to act as a holding company to hold the equity interests in HollySys held directly or indirectly by the Gifted Time Stockholders. HollySys is one of the leading automation and control system companies in China. The three HollySys Operating Companies are Beijing HollySys Co., Ltd., Hangzhou HollySys Automation Co., Ltd. and Beijing HollySys Haotong Science & Technology Development Co., Ltd. (“Haotong”). The three HollySys Operating Companies are organized and exist under the laws of the PRC. The HollySys Operating Companies develop, sell, and service automation and control systems and components in China. The businesses of the HollySys Operating Companies began in 1996.

For the years ended June 30, 2005 and 2006, HollySys generated approximately \$79.6 million and approximately \$90 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 seven-person board of directors of HLS. Kerry Proper, a current director and officer of Chardan, also will be on the board of directors of HLS.

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.

HollySys Reorganization and Ownership

Gifted Time Holdings itself does not engage in any operations. Gifted Time Holdings was established under the laws of the British Virgin Islands on September 21, 2005. On September 20, 2005, the parties who would become the beneficial owners of Gifted Time Holdings entered into a reorganization agreement to exchange the equity interests which they held in Beijing HollySys and Hangzhou HollySys for equity in Gifted Time Holdings, effective June 30, 2005. On October 12, 2005, Gifted Time Holdings issued one share to Madame Li Qiao as part of the consideration for transferring 30% equity interests in Hangzhou HollySys to OSCAF after reorganization. On December 30, 2005 Gifted Time Holdings issued 49,999 shares to the British Virgin Islands companies designated by the stockholders of Beijing HollySys and Hangzhou HollySys as described below. Subsequently, the stockholders of Gifted Time Holdings amended the reorganization agreement on December 30, 2005 due to the withdrawal of one investor in Beijing HollySys, Shanghai Jinqiaotong Industrial Development Co. Ltd. ("Shanghai Jinqiaotong"), which originally intended to acquire an additional 20% interest in Hangzhou HollySys but was not able to consummate this transaction. Shanghai Jinqiaotong decided not to purchase the additional 20% interest in Hangzhou HollySys because of a change in its investment strategy. Shanghai Jinqiaotong has continued to have its 20% interest in Beijing HollySys be subject to the reorganization agreement. Guantao Law Firm, counsel to the Gifted Time Stockholders, has opined that the reorganization agreement, as amended, is valid and enforceable under PRC laws. A copy of Guantao's opinion is filed as an exhibit to the Registration Statement of which this joint proxy/prospectus forms a part. Upon completion of the amended reorganization agreement, Gifted Time Holdings holds 74.11% of the equity interest in Beijing HollySys and 60% of the equity interest in Hangzhou HollySys. Gifted Time Holdings also indirectly own another 29.64% of Hangzhou HollySys by virtue of the fact that Beijing HollySys, of which Gifted Time Holdings owns 74.11%, owns 40% of Hangzhou HollySys.

The stockholders representing 74.11% of the equity interests of Beijing HollySys each formed a separate British Virgin Islands company, and these stockholders consigned their equity interest in Beijing HollySys to their British Virgin Islands companies as set forth in the tables below. Gifted Time Holdings then entered into consignment agreements with these British Virgin Islands companies to obtain the stockholders' 74.11% equity interest in Beijing HollySys. Gifted Time Holdings also entered into share transfer agreements with two foreign investors in Hangzhou HollySys, Team Spirit Industrial Limited ("Team Spirit") and OSCAF International Co. Limited ("OSCAF"), to obtain their equity interests in Hangzhou HollySys. Team Spirit is owned and controlled by Wang Changli, and OSCAF is owned and controlled by Qiao Li. Team Spirit and OSCAF each owned 30% of the total number of outstanding shares of Hangzhou HollySys. Team Spirit and OSCAF exchanged for shares in Gifted Time Holdings their entire ownership interest in Hangzhou HollySys to Gifted Time Holdings pursuant to the stock transfer agreements. As consideration for that transfer, Sure Grow Profits Limited and Faith Best Profits Limited, the BVI companies appointed by Team Spirit and OSCAF, each received 7,966 shares of Gifted Time Holdings' common stock, representing 15.932% each of the total outstanding common stock of Gifted Time Holdings. Guantao Law Firm has opined that the stock transfer agreements are valid and enforceable under PRC laws, and all relevant Chinese governmental authorities have approved the stock transfer. A copy of Guantao's opinion is filed as an exhibit to the Registration Statement of which this joint proxy/prospectus forms a part. Hangzhou HollySys is a limited liability company, and the transfer restrictions applicable to Beijing HollySys do not apply to limited liability companies under PRC law. The tables below identify the current stockholders of Gifted Time Holdings, Beijing HollySys and Hangzhou HollySys, and provides the names of the various British Virgin Islands companies formed by such stockholders for the purpose of

holding their stock in those entities.

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Gifted Time Holdings Stockholders

Beneficial Owner	BVI Company	Percentage of ownership of Gifted Time Holdings
Mei Qinglin	Pioneer Sum Investments Limited	5.516%
Wang Changli	Ace Lead Profits Limited	13.083%
Luo An	Plus View Investments Limited	9.084%
Xu Shengheng	Acclaimed Insight Investments Limited	22.066%
Song Xuesong (legal representative of Shanghai Jinqiaotong)	Allied Earn Investments Limited	18.388%
Wang Changli	Sure Grow Profits Limited	15.932%
Qiao Li	Faith Best Profits Limited	15.932%
Total		100%

Beijing HollySys Stockholders

Stockholder	Percentage of ownership of Beijing HollySys
Beijing No. 6 Institute Huasheng High-Tech Co., Ltd.*	24.11%
Beijing New Technology Industry Development and Services Center*	1.78%
Shanghai Jinqiaotong Industrial Development Co., Ltd.	20%
Wang Changli	14.23%
Cheng Wusi (holding stock on behalf of Xu Shengheng, who owns 24% of the shares of Beijing HollySys, and Mei Qinglin, who owns 6% of the shares of Beijing HollySys)	30%
Lou An	9.88%
Total	100%

* not a party to the reorganization agreement; shares will not be acquired by Gifted Time Holdings.

Hangzhou HollySys Stockholders

Stockholder	Percentage of ownership of Hangzhou HollySys
Beijing HollySys Co., Ltd.	40%
Gifted Time Holdings (pursuant to stock transfer agreements entered into with Team Spirit and OSCAF)	60%
Total	100%

Beijing HollySys owns 70% of the equity interests in Haotong. Haotong is a privately owned company that focuses on railway signal automated controls. Beijing HollySys first acquired a 40% interest in Haotong on May 15, 2002, and subsequently acquired an additional 30% interest in Haotong on December 13, 2002. Since Beijing HollySys holds 70% of the ownership interests in Haotong, when 74.11% of the equity interest in Beijing HollySys was consigned to Gifted Time Holdings pursuant to the consignment agreements, Gifted Time Holdings acquired a controlling interest in Haotong as well (with control over 51.9% of the equity interests in Haotong).

The diagram below shows the corporate structure of Gifted Time Holdings, Beijing HollySys and Hangzhou HollySys. The following abbreviations are used in the below diagram:

AII	Acclaimed Insight Investments Limited
PSI	Pioneer Sum Investments Limited
ALP	Ace Lead Profits Limited
PVI	Plus View Investments Limited
AEI	Allied Earn Investments Limited
SGP	Sure Grow Profits Limited
FBP	Faith Best Profits Limited
BJ HLS	Beijing HollySys
HZ HLS	Hangzhou HollySys
Huasheng	Beijing No. 6 Institute Huasheng High-Tech Co., Ltd.
NT Center	Beijing New Technology Industry Development and Services Center
Haotong	Beijing HollySys Haotong Science & Technology Development Co., Ltd.
Huake	Beijing Huake Electronics Co., Ltd.
Electric	Beijing HollySys Electric Tech. Co., Ltd.
Hollyinfo	Beijing Hollyinfo Technology Co., Ltd.
Zhonghao	Beijing HollySys Zhonghao Automation Engineering Technology Co., Ltd.
Hengye	Beijing HollySys Hengye Science & Technology Co., Ltd.

Gifted Time Holdings will not hold 25.89% of the equity interests in Beijing HollySys. Beijing No. 6 Institute Huasheng Technology Co. Ltd. (“Huasheng”) holds 24.11% of the equity interests in Beijing HollySys, and Beijing New Technology Industry Development and Services Center (“NT Center”) holds 1.78% of the equity interests in Beijing HollySys. Because Beijing HollySys owns 40% of the equity interests in Hangzhou HollySys, Huasheng has an indirect beneficial ownership of 9.644% of the shares of Hangzhou HollySys and NT Center has an indirect beneficial ownership of 0.712% of the shares of Hangzhou HollySys. Gifted Time Holdings has not sought and does not intend to seek control of these minority interests, although it would consider a purchase if either stockholder desired to sell its interest following the closing of the stock purchase. After the consummation of the stock purchase transaction under the stock purchase agreement between the Gifted Time Stockholders and Chardan and the redomestication merger in which Chardan will merge with and into HLS Systems International, Ltd., HLS will acquire all of the equity interests held by Gifted Time Holdings Ltd. in the HollySys Operating companies, as indicated in the diagram above.

The Chinese corporation law was recently amended, effective January 1, 2006, to prohibit directors or corporate officers of a joint stock company (such as Beijing HollySys) 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 Gifted Time Holdings through a BVI company. The other stockholders in Beijing HollySys, who had previously entered into voting-together agreements with Dr. Wang, also consigned their equity interests in Beijing HollySys stock to Gifted Time Holdings through their respective BVI companies. The parties to the voting-together agreements are Mr. Cheng Wusi, Dr. Wang Changli, Mr. Luo An, Shanghai Jinqiaotong Industrial Development Co., Ltd., Team Spirit and OSCAF. These parties are the various individuals and companies that collectively own 74.11% of the equity interests in Beijing HollySys and 60% of the equity interests in Hangzhou HollySys. Considering the further growth of Beijing HollySys, all of the parties to the voting-together agreements believed that they needed to vote together for important issues related to Beijing HollySys' growth, capital raising matters, and important daily operational decisions. The parties believed that the best representative of their interests would be the person with the best skill set, who is the current CEO, Dr. Wang Changli. Dr. Wang received an education in England with a Ph. D degree in automation control, demonstrated his leadership skills with more than seventeen-years working experience in the automation industry, and has a strong network in the Beijing marketplace. Therefore, all of the above parties entered into a voting-together agreement with Dr. Wang, which replaced the earlier voting-together agreements.

After the reorganization, which was effective June 30, 2005, Gifted Time Holdings held 60% of the ownership interests in Hangzhou HollySys and 74.11% equity interest in Beijing HollySys, respectively. In addition, Gifted Time Holdings indirectly owns another 29.64% of Hangzhou HollySys by virtue of the fact that Beijing HollySys owns 40% of Hangzhou HollySys. 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. HollySys expects 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. In order to change from a joint stock company to a limited liability company, Beijing HollySys will have to apply to the Beijing Administrative Bureau of Industry & Commerce to change its registration. Beijing HollySys also will be changing from a domestic company to a foreign investment company after the closing of the stock purchase transaction. In order to become a foreign investment company, Beijing HollySys will have to obtain approval from the Ministry of Commerce, obtain foreign investment exchange registration with SAFE and foreign investment company registration with the Beijing Administrative Bureau of Industry & Commerce. This change may take six months to complete the required governmental administrative proceedings.

Guantao Law Firm, counsel for the Gifted Time Stockholders, has opined that the consignment agreements are valid and enforceable under the laws of the PRC so as to give Gifted Time Holdings the equity interests and control of 74.11% of the issued and outstanding stock of Beijing HollySys. A copy of Guantao's opinion is filed as an exhibit to the Registration Statement of which this joint proxy/prospectus forms a part.

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 Gifted Time Holdings 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 Gifted Time 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 Gifted Time Holdings and the stockholders of the HollySys Operating Companies. Following consummation of the stock purchase agreement and the redomestication merger, Gifted Time Holdings will continue as a wholly-owned subsidiary of HLS 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 Gifted Time Stockholders 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 Gifted Time 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). The amount of the cash payment that will be deferred will be determined at closing and will equal the sum of \$3,000,000 plus two-thirds of the difference between the funds in the trust account (following the exercise of any conversion rights by Chardan Stockholders) and \$30,000,000. The deferred portion of the cash purchase price is not payable 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 Gifted Time Stockholders will be issued up to an aggregate of 8,000,000 shares of HLS common stock (2,000,000 per year on an all-or-none basis) for each of the next four 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

Chardan and the Gifted Time 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 20% or more of the shares of common stock issued in Chardan's initial public offering do not both 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. Chardan has entered into two amendments to the stock purchase agreement that are also included as an annex to this proxy statement/prospectus and discussed in more detail on page 66. 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, Jerry Zhang, Youxian Sun, Lewis Solomon and Leonard Hafetz.

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

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 Gifted Time Stockholders

All of the Gifted Time 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 and the holders of a majority of the shares of Chardan common stock issued in its initial public offering in August 2005.

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 more fully under the heading "Chardan Redomestication Merger - Appraisal Rights."

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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. The cost of soliciting proxies will be borne by Chardan. Chardan will solicit stockholders by mail through its regular employees, and may request banks and brokers, and other custodians, nominees and fiduciaries, to solicit their customers who have stock of Chardan registered in the names of such persons and will reimburse them for their reasonable, out-of-pocket costs. Chardan may use the services of its officers, directors, and others to solicit proxies, personally or by telephone, without additional compensation.

Stock Ownership

On the record date, directors and executive officers of Chardan and their affiliates beneficially owned and were entitled to vote 1,250,000 shares of Chardan's common stock, representing approximately 17% of the currently issued and outstanding shares of Chardan common stock. In connection with its initial public offering, Chardan and EarlyBird Capital, 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. All 1,250,000 shares of Chardan common stock held by the management shareholders are subject to Stock Escrow Agreements restricting the stockholder's ability to transfer those shares until August 2, 2008. These shares will be automatically converted into shares of HLS upon consummation of the redomestication merger. The HLS shares issuable to the management shareholders as a result of the redomestication merger will be subject to the terms of the Stock Escrow Agreements to the same extent as the shares of Chardan common stock are subject to the escrow immediately prior to the redomestication merger.

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

- the management of HollySys, which after the completion of the stock purchase will be the management of HLS, has agreed in principle to retain Chardan Capital, LLC, an affiliate of Dr. Propper, Chardan's Chairman, to provide a variety of ongoing services to HollySys. These services will include the following: assistance with compiling and formatting filings required under securities laws (but not including legal advice); working with HLS legal and accounting professionals to assist HLS in achieving and maintaining compliance with the applicable requirements of the Sarbanes-Oxley Act and U.S. accounting standards; establishing and maintaining the capabilities and procedures to manage relations with investors and the financial community effectively; and advising HLS regarding corporate structure and development, including any strategic business opportunities and their potential effects on the value of the company's stock and overall business prospects. Chardan contemplates that these services will be provided on a month-to-month basis, terminable at will by HLS without penalty, for a monthly fee of \$30,000, plus reimbursement of expenses incurred in performing the services. There is not yet a written agreement governing the services to be provided, although the parties may formalize the agreement, to include these and other terms, if the stock purchase occurs.

Conditions to the Completion of the Stock Purchase

Each of Chardan's and the Gifted Time 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 Gifted Time 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 Gifted Time Stockholders 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 Gifted Time 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 Gifted Time Stockholders to that effect;
- the Gifted Time Stockholders must have performed in all material respects all obligations required to be performed by them;
 - Gifted Time Holdings will have acquired ownership or control of the three HollySys Operating Companies;
- the Gifted Time 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 Gifted Time Stockholders 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 Gifted Time Holdings, the HollySys Operating Companies and the business in which they are engaged, and the Gifted Time Stockholders, and the 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 Proxy Statement/Prospectus Information not misleading.

Conditions to the Gifted Time 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 Gifted Time Stockholders from seeking an alternative transaction. These covenants generally prohibit Chardan and the Gifted Time 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 Gifted Time 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 Gifted Time 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 Gifted Time 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 Gifted Time Holdings 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 Gifted Time Stockholders have no right to damages from Chardan or HLS and they have no right to any amount held in the trust account. The Gifted Time 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.

Quotation or Listing

Chardan's outstanding common stock, warrants and units are quoted on the Over-the-Counter Bulletin Board. HLS has applied to have the HLS common stock, warrants and units quoted on the Nasdaq Global 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.

Indemnification by Gifted Time Stockholders

The Gifted Time 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 into 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

As described below under the heading "Material U.S. Federal Income Tax Considerations of the Redomestication Merger", it is the opinion of DLA Piper Rudnick Gray Cary US LLP, counsel to Chardan, 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 Gifted Time Holdings rather than as an acquisition. The financial statements of HLS will combine the historical statements of Gifted Time 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, in the United States or British Virgin Islands, 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. The stock transfer agreements between Gifted Time Holdings and Team Spirit Industrial Ltd. and OSCAF International Co. Ltd. required approval by the applicable Chinese governmental authorities under PRC law. Hangzhou HollySys received approval of the stock transfer agreements from the Commerce Bureau on February 13, 2006. In addition, in accordance with Notice 75, Notice on Issues concerning Foreign Exchange Management in PRC Residents' Financing and Return investments through Overseas Special Intention Company, promulgated by the Chinese State Administration for Foreign Exchange ("SAFE"), the Gifted Time Stockholders were required to apply for Foreign Exchange Investment Registration before setting up their respective British Virgin Islands companies and acquiring any equity interest in Gifted Time Holdings. The Gifted Time Stockholders filed all the necessary documents with SAFE in March 2006, and SAFE has accepted the submission. Beijing HollySys will also be required to obtain approval from the PRC Ministry of Commerce to become a foreign investment company and will have to register with the Beijing Administrative Bureau of Industry and Commerce. A more detailed discussion of the Notice 75 requirements promulgated by SAFE are in the "Risk Factors" section under the heading "Gifted Time Holdings is subject to Notice 75 promulgated by SAFE, which requires PRC residents to apply for Foreign Exchange Investment Registration before establishing or controlling an Overseas Special Intention Company ("OSIC")". Aside from the requirements and approvals discussed above, the stock purchase and the transactions contemplated by the stock purchase agreement are not subject to any other foreign regulatory requirements or approvals.

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 historical information for Gifted Time Holdings Limited from the audited consolidated financial statements of Gifted Time Holdings Limited as of and for each of the years ended June 30, 2004, 2005 and 2006. The selected historical financial data for the year ended June 30, 2002 is unaudited. The selected historical financial data for the year ended June 30, 2003 is based on audited financial statements that are not included with this filing. The unaudited financial information includes all adjustments, consisting only of normal and recurring adjustments, that Gifted Time Holdings considers necessary for a fair presentation of its financial position and operating results for the periods presented. The consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. 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 financial statements contained elsewhere fully represent the financial condition and operations of the companies that will be combined to form HLS, whose shares are being offered in this registration statement. The historical results included below and elsewhere in this proxy statement/prospectus are not indicative of the future performance of Gifted Time Holdings, Chardan or the combined company resulting from the business combination.

GIFTED TIME HOLDINGS' HISTORICAL FINANCIAL DATA

Statement of Income Data	Years Ended June 30,				
	2002 (Unaudited)	2003	2004	2005	2006
Revenue	\$ 28,569,576	\$ 35,985,608	\$ 53,074,256	\$ 79,572,832	\$ 89,916,604
Gross margin	30.84%	31.61%	28.58%	31.3%	35.6%
Operating income	3,262,957	3,515,563	7,431,631	13,875,018	18,994,434
Subsidy income	212,577	634,612	2,782	2,292,880	4,355,367
Net income (1)	1,664,779	2,227,134	4,735,276	13,703,521	18,051,255
Weighted average common shares	50,000	50,000	50,000	50,000	50,000
Income per share (1)	33.30	44.54	94.71	274.07	361.03
Cash dividends declared per share	-	-	-	27.46	33.15
Balance Sheet Data	At June 30,				
	2002	2003	2004	2005	2006
Total current assets	\$ 28,975,207	\$ 35,668,012	\$ 57,507,123	\$ 78,478,569	\$ 96,958,442
Total assets	39,429,145	47,202,013	70,006,021	96,064,098	120,024,159
Total current liabilities	23,028,811	24,823,166	45,723,094	56,081,886	60,032,366
Long-term liability	6,826,062	9,664,871	5,195,370	6,645,321	5,629,011
Minority Interest	2,478,779	3,388,627	4,425,419	6,334,435	9,801,634
Stockholders' equity	7,095,493	9,325,349	14,662,138	27,002,456	44,561,148

Notes:

(1) Gifted Time and Chardan have no discontinued operations, therefore net income (loss) and net income (loss) per share has been provided in lieu of income (loss) from continuing operations and income (loss) from continuing operations per share.

CHARDAN HISTORICAL FINANCIAL INFORMATION

	For the Period From March 10, 2005 (Inception) to December 31, 2005	For the six months Ended June 30, 2006
Revenue	\$ -	-
Interest income on trust account	\$ 347,871	419,229
Net loss (1)	\$ (101,742)	(228,924)
Net loss per share (1)	\$ (0.03)	(0.03)
Dividends paid per share	\$ -	-
Total assets (including cash deposited in trust account in 2005)	\$ 31,353,114	31,297,454
Common shares subject to possible conversion	\$ 5,964,017	5,964,017
Stockholders' equity	\$ 24,905,084	24,676,160

Notes:

(1) Gifted Time and Chardan have no discontinued operations, therefore net income (loss) and net income (loss) per share has been provided in lieu of income (loss) from continuing operations and income (loss) from continuing operations per share.

SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The stock purchase transaction will result in shareholders in Gifted Time Holdings obtaining a majority of the voting interests in Chardan Sub (subsequently named HLS Systems International Ltd.). 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 Gifted Time Holdings. The cash of \$30 million to be paid to the shareholders of Gifted Time 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 Gifted Time Holdings are recorded at historical cost. Although Gifted Time 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 Ltd.) 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.

	Six months ended June 30, 2006		Year ended December 31, 2005	
	Assuming Maximum Approval	Assuming Minimum Approval	Assuming Maximum Approval	Assuming Minimum Approval
Revenue	\$ 40,484,578	\$ 40,484,578	\$ 88,472,077	\$ 88,472,077
Net income	\$ 8,452,044	\$ 8,433,561	14,721,636	14,692,681
Net income per share	0.28	0.29	0.52	0.53
Cash dividends declared per share	-	-	0.05	0.05
June 30, 2006				
Total assets	\$ 124,147,706	\$ 122,026,083		
Long-term debt	\$ 5,629,011	\$ 5,629,011		
Stockholders' equity	\$ 45,391,695	\$ 39,237,308		

COMPARATIVE PER SHARE INFORMATION

The following table sets forth selected historical per share information of Gifted Time Holdings and Chardan and unaudited pro forma combined per share ownership information of Gifted Time Holdings and Chardan after giving effect to the stock purchase proposal of Gifted Time Holdings, which includes control of the Gifted Time Holdings 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 Gifted Time Holdings.

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 Gifted Time Holdings and Chardan and related notes that are included elsewhere in this proxy statement/prospectus. The unaudited Gifted Time Holdings 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 Gifted Time Holdings was derived from its audited financial statements as of and for the years ended June 30, 2005 and 2006.

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 Gifted Time Holdings and Chardan results of operations that may be achieved after the stock purchase.

[Table and notes to be revised.]

Number of shares of common stock assumed to be issued in stock purchase:	Gifted Time	Chardan (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, 2005:	\$ 274.07		
Year ended June 30, 2006:	\$ 361.03		
Year ended December 31, 2005:		(0.03(1))	
Six months ended June 30, 2006		(0.03)	
Net income per share - pro forma on weighted average basis - diluted			
Year ended December 31, 2005:			
under maximum approval assumption			\$ 0.52
under minimum approval assumption			\$ 0.53
Six months ended June 30, 2006:			
under maximum approval assumption			\$ 0.23
under minimum approval assumption			\$ 0.24
Net assets at book value per share - June 30, 2006 (3)		\$ 4.22	\$ 1.34(3)
Net assets at book value per share - June 30, 2005	\$ 891.22		

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 during the periods presented. The combined pro forma per share amounts for Chardan and Gifted Time Holdings were determined based upon the assumed number of shares to be issued under the two different levels of approval at June 30, 2006.

(3) Calculated based on the minimum approval, to record refund of funds (\$5,964,017 plus \$190,370 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 has applied for the quotation of the combined company's common stock, warrants and units on the Nasdaq Global 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 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 closing 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	\$ 12.90	\$ 5.74	\$ 7.38	\$ 1.65	\$ 27.50	\$ 9.10		
2006 Second Quarter	\$ 12.60	\$ 7.45	\$ 7.45	\$ 2.60	\$ 27.40	\$ 12.50		
2006 Third Quarter (through August 25, 2006)	\$ 9.40	\$ 7.02	\$ 4.60	\$ 2.50	\$ 18.75	\$ 12.00		

 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 Gifted Time 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 Gifted Time Holdings 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 Gifted Time 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.

We have control of Beijing HollySys only through contractual agreements with shareholders of Beijing HollySys (i.e., the stock consignment agreements), which may not be as effective as direct ownership because of potential violations of the consignment agreements and our uncertain ability to enforce those agreements.

At the closing of the stock purchase, we will have control of Beijing HollySys (and Haotong through Beijing HollySys) only pursuant to stock consignment agreements entered into between stockholders of Beijing HollySys and Gifted Time Holdings. While the terms of these contractual agreements provide us with voting control and 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 Beijing HollySys as direct ownership, because we must rely on the performance of the respective stockholders under the agreements. If those stockholders fail to perform their respective obligations under the agreements, we may have to expend substantial resources to enforce those agreements. In the event that the consignment agreements are not honored or enforced, we would lose the control of Beijing HollySys to the extent that legal title to the stock that is the subject of those agreements had not been previously transferred to Gifted Time Holdings.

If U.S. shareholders sought to sue HollySys' officers or directors, it may be difficult to obtain jurisdiction over the parties and access the assets located 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 shareholders in the U.S. It also 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. Furthermore, because substantially all 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. 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.

Being a foreign private issuer exempts us from certain Securities and Exchange Commission Requirements.

Upon consummation of the Redomestication Merger we will be a foreign private issuer within the meaning of the rules promulgated under the Securities Exchange Act of 1934. As such, we will be exempt from certain provisions

applicable to United States public companies including:

- The rules requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- The sections of the Securities Exchange Act regulating the solicitation of proxies, consents or authorizations with respect to a security registered under the Securities Exchange Act;

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- Provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information; and
- The sections of the Securities Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any "short swing" trading transactions (i.e., a purchase and sale, or a sale and purchase, of the issuer's equity securities within less than six months).

Because of these exemptions, our stockholders will not be afforded the same protections or information generally available to investors holding shares in public companies organized in the United States.

HollySys may experience trade barriers in expanding to its targeted emerging markets and may be subject to tariffs and taxes that will result in significant additional costs for HollySys' business and products.

HollySys may experience barriers to conducting business and trade in its planned expansion to its targeted emerging markets (initially India and Pakistan). These barriers may be in the form of delayed customs clearances, customs duties or tariffs. In addition, HollySys 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 into which HollySys may expand may impose onerous and unpredictable duties, tariffs and taxes on its business and products. These barriers or expenses could have an adverse effect on the operations and financial results of HollySys.

Cessation of or changes to certain government incentives for high technology companies may result in increased tax liabilities.

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.

Each of Beijing HollySys and Beijing HollySys Haotong (Haotong) 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, each company 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. Haotong also has 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 (because of its majority ownership by Team Spirit and OCSAF and now Gifted Time Holdings) conducting production functions. Under the provisional regulations that are applicable to 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 is 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.

Normally, domestic-invested enterprises in China are subject to a 33% income tax rate. The Chinese government has indicated that it 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.

In addition, 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.

The market price of our shares is subject to price and volume fluctuations, so stockholders may not be able to resell shares at or above the price paid, or at any price.

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.

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 almost all of the material agreements of HollySys. 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.

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.

The laws of the British Virgin Islands provide little protection for minority stockholders, so minority stockholders will have little or no recourse if the stockholders are dissatisfied with the conduct of the affairs of HLS.

Under the law of the British Virgin Islands, there is little statutory law for the protection of minority shareholders. The principal protection under statutory law is that shareholders may bring an action to enforce the constituent documents of the corporation, the Articles and the Memorandum of Association. Shareholders are entitled to have the affairs of the company conducted in accordance with the general law and the articles and memorandum. The company is obliged to hold an annual general meeting and provide for the election of directors. Companies are obligated to appoint an independent auditor and shareholders are entitled to receive the audited financial statements of the company.

There are common law rights for the protection of shareholders that may be invoked, largely dependent on English company law, since the common law of the British Virgin Islands for business companies is limited. Under the general rule pursuant to English company law known as the rule in *Foss v. Harbottle*, a court will generally refuse to interfere with the management of a company at the insistence of a minority of its shareholders who express dissatisfaction with the conduct of the company's affairs by the majority or the board of directors. However, every shareholder is entitled to have the affairs of the company conducted properly according to law and the constituent documents of the corporation. As such, if those who control the company have persistently disregarded the requirements of company law or the provisions of the company's memorandum of association or articles, then the courts will grant relief. Generally, the areas in which the courts will intervene are the following: (i) an act complained of which is outside the scope of the authorized business or is illegal or not capable of ratification by the majority, (ii) acts that constitute fraud on the minority where the wrongdoers control the company, (iii) acts that infringe on the personal rights of the shareholders, such as the right to vote, and (iv) where the company has not complied with provisions requiring approval of a special or extraordinary majority of shareholders, which are more limited than the rights afforded minority stockholders under the laws of many states in the U.S.

We may have difficulty establishing adequate management, legal and financial controls in the PRC, which could result in misconduct and difficulty in complying with applicable laws and requirements.

As a privately held company in the PRC, HollySys has not historically 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.

If the PRC does not continue its policy of economic reforms, it could 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 reduce or eliminate the interests held in the HollySys Operating Companies.

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.

A decrease in the rate of growth in Chinese industry and the Chinese economy in general may lead to a decrease in revenues for HollySys because industrial companies in China are the principal current source of revenues for 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.

HollySys' plans for growth rely on an increasing emphasis on railroad and nuclear power sectors, and these sectors present fewer business opportunities, so HollySys may not be successful in growing these new markets.

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.

HollySys does not have long-term purchase commitments from its customers, so its customers are free to choose products from HollySys' competitors, which would result in a loss of revenue and profitability.

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.

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.

A lack of adequate engineering resources could cause HollySys' business to lose profitability and potential business prospects.

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.

Many of HollySys' competitors have substantially greater resources than HollySys, allowing the competitors to be able to reduce their prices, which would force HollySys to reduce its prices.

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.

HollySys will need to commit greater resources to new product and service development in order to stay competitive, and HollySys may fail to offset the increased cost of such development with a sufficient increase in net sales or margins.

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.

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

HollySys manufactures spare parts for maintenance and replacement purposes after completion of integrated solution contracts to its customers' requirements, which can be highly complex and may at times contain design or manufacturing errors or defects. Any defects in the spare parts HollySys manufactures 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 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, than was present in the industrial process controls markets in which HollySys traditionally competed.

HollySys may not be able to obtain adequate insurance coverage to protect it and us against these and other risks associated with its business. The typical practice of the industries which HollySys is involved is for the customers to obtain insurance to protect their own operational risks. Therefore, HollySys currently does not carry any insurance coverage to protect against the risks related to product failure. However, it is possible that such customers or their insurers could assert claims against HollySys for the damages caused by a failure in one of its systems, and as a result, the failure of any of its products could result in a liability that would seriously impair our financial condition or even force us out of business.

HollySys expects to rely increasingly on its proprietary products and systems, and if HollySys becomes involved in an intellectual property dispute, it may be forced to spend a significant amount of time and financial resources to resolve such intellectual property dispute, diverting time and resources away from HollySys' business and operations.

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 do not gain market acceptance, which would result in the failure to recover the significant costs for design and manufacturing services for new product solutions, thus adversely affecting operating results.

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, it may not be able to stay competitive in a changing industry to meet customers' needs.

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, and capital, resources and management's time and attention would have been diverted to such plans for the international market instead of focusing on the domestic Chinese market.

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 be able to retain, recruit and train adequate management and production personnel, and increased competition for qualified personnel in China could result in an increase in wages that HollySys may not be able to offer in order to stay competitive.

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.

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.

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.

Because HollySys plans to increase the amount of international business it conducts and may use currencies other than the Renminbi, HollySys may experience a decrease in earnings because of the fluctuation of the Renminbi against other currencies.

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. While the official exchange rate had remained stable over the past several years, the PRC recently adopted a floating rate with respect to the Renminbi, with permitted ranges of fluctuation. Since HollySys is planning to increase the amount of business that it conducts internationally, and may use currencies other than the Renminbi, any fluctuation in the value of the Renminbi could have various adverse effects on its business.

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, through the State Administration for Foreign Exchange ("SAFE"), regulates conversion of RMB into foreign currencies. Currently, Foreign Invested Enterprises (such as Hangzhou HollySys) are required to apply for "Foreign Exchange Registration Certificates" and to renew those certificates annually. However, even with that certification, conversion of currency in the "capital account" (e.g. for capital items such as direct investments or loans) still requires the approval of SAFE. After the consummation of the acquisition of Beijing HollySys stock by Gifted Time Holdings from the Gifted Time 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.

Gifted Time Holdings is subject to Notice 75 promulgated by SAFE, which requires PRC residents to apply for Foreign Exchange Investment Registration before establishing or controlling an Overseas Special Intention Company ("OSIC"). If the PRC residents that are parties to the stock purchase agreement do not establish and maintain the Foreign Exchange Investment Registration for Gifted Time Holdings, then Gifted Time Holdings may be prohibited from acquiring the domestic assets or shares from the PRC residents and Beijing HollySys may not distribute profits or proceeds from a liquidation or pay bonuses to the OSIC outside of the PRC.

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. Gifted Time Holdings would be considered an OSIC following the stock purchase transaction. Notice 75 would require the PRC residents notify SAFE of changes in ownership interests held by the OSIC (such as the acquisition of Beijing HollySys) if PRC residents either directly contributed their domestic assets or shares into the OSIC, or processed foreign equity capital financing after directly contributing their domestic assets or shares into the OSIC.

Beijing HollySys will also be required to obtain approval from the PRC ministry of Commerce to become a foreign investment company and will have to register with the Beijing Administrative Bureau of Industry and Commerce.

Pursuant to Notice 75, Beijing HollySys is prohibited, among other things, from distributing profits or proceeds from liquidation or paying bonuses to the OSIC outside of the PRC if the PRC residents who contributed their interests in a domestic company to an OSIC have not completed or do not maintain the Foreign Investment Exchange Registration. As a result, if the stockholders who hold the 74.11% interest in Beijing HollySys fail to complete the foreign investment exchange registration process by filing the required documents with SAFE, Gifted Time Holdings may not be able to receive any profits, bonuses or proceeds from liquidation from Beijing HollySys.

HollySys will be subject to various tax regimes, so any change in tax laws and regulations in any one of the relevant jurisdictions may result in reduced profitability and an increase in tax liabilities.

Upon consummation of the stock purchase transaction, we will have operations in the PRC and subsidiaries in the PRC and the BVI, and to the extent HollySys expands to other emerging markets we would have operations in other jurisdictions. We will be subject to the tax regimes of the countries where we have operations or subsidiaries. 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.

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 Gifted Time 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. If all of the earnout shares are issued as additional consideration to the Gifted Time Stockholders (which would occur, if ever, from 2007 through 2010) and assuming there are no other issuances of shares, then the Gifted Time Stockholders will own approximately 82% of the issued and outstanding common stock of HLS, and existing Chardan stockholders will own approximately 18% of the issued outstanding common stock of HLS. This concentration could also have the effect of delaying or preventing a change in control that could otherwise be beneficial to our stockholders.

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. While we have filed an application for listing on The Nasdaq Global Market, our listing application may not be accepted. If we do not succeed in securing a listing on the NASDAQ Global 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 Global Market we will always be able to meet the Nasdaq Global 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 Global Market listing requirements could result in the delisting of our common stock from the Nasdaq Global Market, which may adversely affect the liquidity of our shares, the price that can be obtained for them, or both.

Chardan's Board approved the transaction without obtaining a fairness opinion.

Based upon the directors' extensive experience in performing due diligence of acquisition targets and in valuing companies, Chardan did not obtain a fairness opinion with respect to the stock purchase transaction. If the Chardan Board erred in concluding that the Stock Purchase Agreement is in the best interest of the Chardan stockholders, then the Chardan stockholders will suffer adverse consequences associated with the consummation of the transaction. In the event of litigation over the Board's exercise of its fiduciary duties, Chardan may be required to indemnify its directors. At a minimum, any litigation would divert management's time and attention from completing the transactions described herein, and would likely also involve the expenditure of substantial amounts for legal fees.

We may not pay cash dividends, so the liquidity of a stockholder's investment depends on his or her ability to sell the stock at an acceptable price, and the market price of the stock may fluctuate greatly.

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.

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 "continue" 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 Gifted Time Holdings in its forward-looking statements, including among other things:

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- the number and percentage of Chardan stockholders voting against the stock purchase proposal;
 - changing interpretations of generally accepted accounting principles;
 - 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 Gifted Time Holdings and the HollySys Operating Companies are engaged;
 - fluctuations in customer demand;
 - management of rapid growth;
 - 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, HollySys 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 HollySys 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, Gifted Time 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 ____ 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.

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.

Broker Non-Votes.

A broker non-vote occurs when a broker submits a proxy card with respect to shares held in a fiduciary capacity (typically referred to as being held in "street name") but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on non-routine matters. Routine matters include the election of directors and ratification of auditors. The matters currently planned to be considered by the shareholders are not routine matters. As a result, brokers can only vote the Chardan shares if they have instructions to do so. Abstentions and broker non-votes will not be counted in determining whether the proposals to be considered at the meeting are approved.

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. Under Chardan's Certificate of Incorporation, approval of the stock purchase also requires approval of a majority of the shares issued in Chardan's initial public offering in August 2005. Since stockholders of Chardan prior to the initial public offering have agreed to vote their shares in accordance with the vote of a majority of the shares issued in the initial public offering, the required approval of a majority of shares outstanding will be achieved if, and only if, a majority of the shares issued in the initial public offering vote in favor of the proposals.

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. A stockholder who has not properly exercised conversion rights may still exercise those rights prior to the special meeting by submitting a later dated proxy, together with a demand that Chardan convert his or her shares. After the special meeting, a Chardan stockholder may not exercise conversion rights or correct invalidly exercised rights.

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. Exercise of conversion rights will not affect any warrants held by that stockholder.

Appraisal Rights

Under Delaware corporate law, the redomestication merger of Chardan with HLS causes the stockholders of Chardan to have appraisal rights. 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 rights 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. If the redomestication merger is consummated, Chardan stockholders who choose not to vote in favor of the redomestication merger will have the right to elect an appraisal of the fair market value of their shares of Chardan common stock, and to receive the fair market value of such shares in lieu of the consideration contemplated by the redomestication merger and the merger agreement, in accordance with the provisions of Section 262 of the Delaware General Corporation Law. Unlike conversion rights in which the stockholder will receive a pro rata portion of the trust account as of the record date, stockholders who elect to exercise their appraisal rights will receive a value for their shares that is determined by an appraisal made by the Delaware Court of Chancery. Failure to properly exercise appraisal rights before the special meeting will result in loss of these rights. Exercise of appraisal rights will not affect any warrants held by that stockholder. See "The Chardan Redomestication Merger - Appraisal Rights" 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 HollySys 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 Gifted Time Stockholders is subject to, and is qualified in its entirety by reference to, the stock

purchase agreement, as amended. A copy of the stock purchase agreement, as amended, 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 Gifted Time 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 Gifted Time 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. If HLS issues the additional earnout shares as additional consideration to the Gifted Time Stockholders, then the Gifted Time Stockholders will own approximately 82% of the issued and outstanding common stock of HLS, and existing Chardan stockholders will own approximately 18% of the issued outstanding common stock of HLS. None of the foregoing percentages reflects the effect that an exercise of the currently outstanding warrants would have.

The parties to the stock purchase agreement include Shanghai Jinqiaotong Industrial Development Co., Wang Changli, Cheng Wusi, Lou An, Team Spirit Industrial Limited and OSCAF International Co. Ltd. Shanghai Jinqiaotong Industrial Development Co., Wang Changli, Cheng Wusi and Lou An are stockholders of Beijing HollySys, and Team Spirit and OSCAF are stockholders of Hangzhou HollySys. Shanghai Jinqiaotong owns 20% of the total shares of Beijing HollySys. Wang Changli, Cheng Wusi and Lou An respectively own 14.23%, 30% and 9.88% of the total shares of Beijing HollySys. Wang Changli, Cheng Wusi and Lou An entered into a voting agreement in which Lou An and Cheng Wusi agreed to vote in concert with Wang Changli during the period from December 1, 2004 to December 31, 2006. On July 15, 2005, Shanghai Jinqiaotong entered into an Acknowledgement Letter in which it agreed to completely accept and follow the terms and conditions of the Voting Agreement signed by Wang Changli, Cheng Wusi and Lou An. Team Spirit and OSCAF each owned 30% of the total shares of Hangzhou HollySys, and both parties transferred their entire equity interest in Hangzhou HollySys to Gifted Time Holdings pursuant to share transfer agreements executed on January 12, 2006 in exchange for stock in Gifted Time Holdings.

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 Gifted Time Stockholders. The following is a brief discussion of the background of Chardan's efforts to identify potential candidates for a business combination, the selection of HollySys, and the negotiation of the stock purchase agreement and related transactions.

The Candidate Identification Process

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 \$29.8 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 Chardan's public offering, the officers and directors of Chardan traveled to China to begin the initial interviewing and screening process to locate a company with which to effect a business combination, both with regard to Chardan and Chardan South China Acquisition Corporation ("Chardan South"), which has the same management team and board as Chardan. Chardan initially sought to identify acquisition candidates principally through the efforts of Jiangnan Huang and Li Zhang, officers and directors of Chardan. Both of these persons have extensive contacts throughout the business and legal community in the PRC.

In addition, Chardan began looking at companies introduced by both the Guantao Law Firm ("Guantao") and Chum Investment Corporation ("Chum"), among others. Chum is a China-based investment firm engaged in private equity investment and financial advisory services focused on assisting companies with fund raising and going public. They help Chinese companies in need of capital to acquire it, and they help to facilitate transactions among companies. Its business scope is not limited to any stock exchange market or financing products.

Chum had introduced State Harvest Holdings, Ltd. to Chardan China Acquisition Corp. (now Origin Agritech, Ltd.), another blank check company that successfully concluded a business combination with State Harvest Holdings, Ltd. on November 8, 2005. Chardan China Acquisition Corp. had the same officers and directors as Chardan has. Chum became aware of Chardan's public offering information from Chardan's S-1, filed in May of 2005. During a brief discussion of the filing, Chardan told Chum that Chum should provide no information to Chardan's management about any potential targets before the S-1 became effective, and neither Chum nor anyone else provided Chardan with the identity of or any information about candidates until after Chardan's public offering was concluded.

As part of its ongoing business activities, Chum continued to seek out Chinese companies as clients for its services involving fund raising and assisting those clients in going public. At the time that Chardan's public offering closed on August 10, 2005, Chum had as clients three Chinese companies that had an interest in a business combination with a blank check company, and upon the arrival of Chardan's management team in China in mid-August 2005, Chum introduced those companies to Chardan. One of them was HollySys, another was a tire manufacturing company and the third was a china manufacturer. Chardan held several discussions with the tire manufacturer before it was determined not to be a suitable candidate for a business combination. The discussions with the china manufacturer did not progress beyond the preliminary stage.

Based on information provided to Chardan by Chum, HollySys had been known to Chum since January 2005, when Chum approached HollySys to discuss an investment by Chum in HollySys. In the course of those discussions Chum learned that HollySys was actively considering various means by which it could become a public company. As a result, the discussions between Chum and HollySys included not only the terms of Chum's private investment, but also an exploration of how Chum might assist HollySys in going public. Included in those discussions were the concepts of an initial public offering, a reverse merger with a shell company and the idea of a business combination with a blank check company.

At no time, either prior to August 10, 2005 or until now, has Chum acted on behalf of Chardan, either directly or indirectly, and if the transactions contemplated in the stock purchase agreement close, Chum will not receive a finder's fee or other consideration from Chardan. On October 15, 2005, Chum entered into a consulting agreement with HollySys to assist in going public. Chum will be entitled to compensation from HollySys pursuant to that consulting agreement if the business combination between HollySys and a blank check company is concluded.

In anticipation of the effective date of its IPO registration statement, Chardan's management team made general plans to travel to China in mid-August 2005 to begin the process of considering possible candidates for a business combination. Chum helped to arrange meetings between Chardan and the candidates it was proposing to Chardan during an approximately ten-day trip to China by Chardan's officers in mid-August 2005, but the nature and even the names of any candidates that Chum intended to propose were not disclosed to Chardan's management until after they arrived in China.

Chardan first learned that Chum was proposing a business combination between HollySys and a blank check company only after the officers of Chardan arrived in China on August 13, 2005. At that time, the list of meetings to be held on the trip was discussed, and HollySys was on that list. Other companies that Chardan met with during that trip, not all of which came to it through Chum, included the following: a company that developed home centers and leased space in them to various furniture, appliance and other franchises; a tire manufacturing company; a company that provided coatings for thin film transistor displays that increased the viewing angle of the displays; a liquid crystal display backlight company; a medical equipment manufacturing company; a biotech pharmaceutical company; and a home shopping company.

In the course of the initial meetings with potential business combination candidates, the discussions focused on general introductions of Chardan to the target and the target to Chardan. The experience of Chardan's principals in working with Chinese businesses was a principal topic of discussion, as was the nature of a blank check company and

the nature of the opportunity that Chardan could offer to a Chinese operating company. The information obtained from the potential candidates during those meetings generally consisted of a history of the company's operations, a description of its ownership structure, its financial performance for the past three years and its future prospects. There was also general discussion regarding the candidate's need for and use of the additional capital that an exercise of Chardan's outstanding warrants would generate, as well as the requirements for completing a transaction between the two companies, such as three years of US GAAP-audited financial statements and the process of obtaining SEC approval of a registration statement and proxy materials and the stockholder vote.

The initial meeting between the management of HollySys and Chardan occurred on August 17, 2005 at the facilities of HollySys in Beijing. Those attending that meeting included the officers and directors of Chardan, the Chairwoman of HollySys, Qiao Li, the CEO of HollySys, Dr. Wang Changli, representatives of Chum, including Song Xuesong and Mark Xue, representatives of Guantao Law Firm, including Sun Dongying, and additional representatives of Chardan, including Daniel Beharry, Mark Brewer and Mark Perry.

The focus of that meeting was on introducing the parties to each other. In that meeting the management of HollySys demonstrated familiarity with the manner in which the State Harvest Holdings transaction was being done and indicated receptivity to such a structure, after having previously considered and dismissed other opportunities to go public in markets other than in the U.S. Chardan's team was generally impressed with HollySys, based on the extent of its accomplishments, the professionalism of its management and the excellent English skills of its CEO, Dr. Wang Changli, a factor that Chardan's management considered to be important to keeping the investing public fully apprised of developments occurring with the company. Prior to departing China on that trip, the principals and advisors of Chardan conferred, and they all agreed that the most promising candidate for a business combination among the companies seen on that trip was HollySys, and that initial efforts should focus on HollySys. In furtherance of that, a second meeting was held between the principals of Chardan and those of HollySys, including representatives from Chum and Guantao, on August 22, 2005 before Chardan's principals concluded their trip to China.

The focus on HollySys remained after Kerry Propper, a member of Chardan's board and management team, conducted a follow up trip to China later in August. The companies with which Mr. Propper and Jiangnan Huang, another of Chardan's officers and directors, met during that trip included the following: an educational software company focusing on personal and family software, software for teachers and administrators in primary and middle schools and educational software for colleges and universities; a media investment company engaged in real estate development, hotel operation, publication of various advertisements in its own media, designing and printing, sales of advertised products and information services; a company that provides services to the cartoon industry in China and serves as a bridge between Chinese and overseas companies, deriving revenues from fee-generating conferences, contracts with various domestic and international cartoon companies and from sales of their own cartoons; and a company that produced a chemical that enhances the process of oil extraction by increasing the yield from a well after all oil that is accessible using conventional means has been pumped out. In addition to Messrs. Propper and Huang, Mark Perry, an associate of Mr. Propper, and the CEO of each of the companies and one or more members of their staffs were present during the meetings. Following Mr. Propper's departure from China, Messrs. Huang and Perry also met with a petrochemical company in early September.

The Role of Greatace

To assist Chardan in evaluating companies in the PRC, Chardan had Jiangnan Huang, an officer and director of Chardan, contact Greatace Consultants Limited ("Greatace"), a Chinese business acquisition consulting firm, on August 28, 2005. Mr. Huang was familiar with Mr. Rong Deng, the chief executive of Greatace, through a common friend, but Chardan, its officers and directors have no other relationship with or connection to Greatace. On September 1, 2005, Chardan engaged Greatace to assist it in preparing background investigations, industry analysis and due diligence reports, among other things, on potential acquisition candidates. Chardan did not retain Greatace to identify candidates for a business combination, and Greatace did not propose any such candidates to Chardan. Under the terms of the agreement, Greatace will be paid a total of \$200,000, payable in four installments. The first three installments of \$22,200, \$22,200 and \$22,300 have been paid as milestone payments for a due diligence report on the first company that Chardan targeted 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.

Chardan engaged Greatace to provide services, including assisting in preparing and executing required confidentiality, market stand-off and similar agreements and compiling preliminary information about potential merger candidates. After a primary candidate was chosen, Greatace would perform financial due diligence and analysis; recommend acquisition structures; assess the available information about the potential target and work with accountants and legal staff to prepare for a business combination, including agreement negotiation.

Chardan, using information it had acquired during its meetings and afterward, selected five companies as potential candidates for a business combination, and Chardan requested preliminary reports from Greatace evaluating the potential targets. Those preliminary reports included general information about the companies (e.g., the nature of their

business, the markets in which they operated and basic financial information provided by management). On October 7, 2005, Greatace and the Chardan team held a meeting to review the data collected on various potential targets and to 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 Chardan selected HollySys as the primary candidate with which to pursue an agreement, and Greatace was directed to compile a due diligence report on HollySys. Chardan and Greatace both received an industry analysis that HollySys itself had commissioned. The activities of Greatace with regard to other candidates did not progress beyond the initial information presented at the October 7 meeting.

The first draft of the Greatace due diligence report on HollySys was delivered to Chardan on November 30, 2005. That report was expanded and revised, and Chardan received a revised report on December 8, 2005. A description of the contents of the due diligence report is provided below under the heading “Board Consideration and Approval of the Transaction.”

History of Discussions between HollySys and Chardan Capital

Chardan representatives first met with HollySys’ President, Dr. Wang Changli and Chairman, Madame Qiao Li, on August 17, 2005, as described above. The parties met again on August 22, 2005, during which meeting Chardan’s management expressed a strong interest in a business combination with HollySys. During that meeting the parties explored the differences in structure between Chardan China Acquisition Corp. (with which HollySys was very familiar) and Chardan, and there were preliminary discussions regarding the economic terms of a business combination between HollySys and Chardan. Thereafter, the parties remained in regular contact through occasional phone calls and email communications, both directly and through their respective representatives (i.e., with Chum as the representative of HollySys).

The first meeting to discuss the specific terms of this transaction was held on October 10, 2005, in Beijing, China. Participants in that meeting included Dr. Propper and Messrs. Propper, Zhang and Huang on behalf of Chardan, Madame Qiao Li and Dr. Wang Changli for HollySys, and Xuesong Song and Mark Xue of Chum. The discussions continued the exchange of information between the parties, and Chardan suggested the general structure and terms of an acquisition by Chardan. In addition, the parties discussed preliminary issues of due diligence, exchange of information and pricing. At the time, Chardan was restricted in its ability to enter into an arrangement with HollySys pending the closing of the transaction by Chardan China Acquisition Corp., a fact that had been made known to HollySys management previously. As a result, the parties included in their discussions the possibility that HollySys would become a candidate for a transaction with Chardan China Acquisition Corp. instead, in the event the transaction with State Harvest Holdings was not approved by Chardan China Acquisition Corp.’s shareholders.

On November 18 and 19, 2005, subsequent to the Chardan China Acquisition Corp. stockholder approval of the transaction with State Harvest Holdings, Dr. Propper, Mr. Huang and Mr. Zhang from Chardan, the Gifted Time Stockholders, Xuesong Song, a principal of Chum Investment Corporation which beneficially holds an interest in HollySys through Shanghai Jinqiatong Industrial Development Co. Ltd., 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 several topics related to the acquisition and disclosure process. Among the matters discussed during these meetings were greater details of the organization of HollySys, the nature of the restrictions on transfer of certain stock holdings in HollySys and the use of consignment agreements as a means of effecting a change in control, the nature and basis for HollySys’ projections of future growth, the economics of the transaction for the Gifted Time Stockholders, the status of the HollySys audit and the likely timing of a transaction.

After these discussions on November 18 and November 19, 2005, Chardan developed and transmitted to HollySys a draft non-binding memorandum of understanding, which the parties subsequently negotiated via email and telephone. They entered into that memorandum on November 27, 2005. This memorandum set forth the following with respect to the terms on which Chardan would acquire a controlling interest in HollySys:

- 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 Gifted Time Stockholders on the board of directors of the surviving corporation.

In determining the consideration to be paid to the Gifted Time Stockholders as part of the transaction, Chardan management relied primarily on the earnings history and projections for HollySys. In that regard, the price-to-earnings ratio of several publicly traded companies that are competitors of HollySys, such as Siemens, Honeywell and ABB, were examined. A more complete description of the valuation process that Chardan's management conducted is provided below at under the heading "Satisfaction of the 80% Test." Due to the uncertainty associated with any valuation that relies on expectations of future performance, the parties agreed that the consideration to be paid to the Gifted Time Stockholders would have a variable component, labeled in the stock purchase agreement as the incentive shares. If HollySys meets the earnings expectations of the Gifted Time Stockholders for fiscal years 2007 through 2010, Chardan agreed that the business would have greater value, and that the amount paid for the interest it was acquiring in HollySys should be greater. Thus, if earnings targets in each of those four years are met, the Gifted Time Stockholders will receive additional stock. If the target is missed in any one or more years, the additional stock for those years will not be earned. Chardan management believes this variable component of the consideration is protective of the interests of its stockholders.

Promptly after the execution of the memorandum of understanding, Chardan's United States counsel prepared a draft of the stock purchase agreement and sent it to counsel for HollySys, the Guantao Law Firm, and to others in the working group, which included Chum, Daniel Beharry and Mark Brewer, the latter two being representatives of Chardan. In addition, the Chinese counsel of Chardan consulted with Chinese counsel for HollySys and commenced discussion of the structure of the transaction and the anticipated steps to be completed under Chinese law before final agreement could be reached.

During the period between November 28, 2005 and December 10, 2005, counsel and other members of the working group 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 throughout this period. During this period, representatives of Chardan and HollySys also continued the due diligence, as contemplated in the MOU. In particular, Greatace delivered its initial draft of a due diligence report on November 30 and provided a revision on December 8, 2005.

On December 10, 2005, there was a meeting at the San Diego offices of Chardan's United States counsel, DLA Piper Rudnick Gray Cary to negotiate the final terms of the stock purchase agreement. Dr. Propper and Mr. Zhang of Chardan and Chardan's United States counsel attended the meetings in person, along with Daniel Beharry and Mark Brewer. Dr. Wang Changli and Madame Qiao Li of HollySys, Mr. Song Xuesong, executive director of Chum Investment Corporation and his associate, Mark Xue, attended as advisors to HollySys, and Mr. Cui and Mr. Sun, partners of Guantao Law Firm, counsel to HollySys, attended the meetings as well. Substantial progress was made on the agreement at that time, including such topics as board of directors' membership, agreement on the means for determining the amount of the cash consideration that would be deferred and a number of other drafting points that remained open at that time.

In addition to the subjects discussed above, during the December 10, 2005 meeting Dr. Propper and counsel for Chardan reviewed with representatives of HollySys the obligations of being a U.S. reporting company, including compliance with the reporting requirements of the federal securities laws and restrictions on insider trading, 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 assist the post-transaction company in meeting the various requirements until management and the service providers in the PRC were familiar with the rules and regulations and public company demands. In the course of that December 10 meeting, a consulting arrangement for Chardan to provide support to HollySys post-transaction was agreed to. Because it is to last only until the HollySys management is familiar with the requirements of being public, the arrangement will be terminable at HollySys' discretion, without penalty. The monthly fee was determined to be \$30,000, subject to change by agreement of the parties. This arrangement has not yet been reduced to a written agreement, and it will not take effect until a transaction between Gifted Time Stockholders and Chardan is concluded.

On December 19, 2005, representatives of Greatace met with the board of directors of Chardan to present their due diligence report and their analysis of the business that HollySys operates. At the meeting were all the board members of Chardan and Mr. Gu Robert, representing Greatace, who made the report. Finding the results of the due diligence report to have satisfactorily confirmed Chardan's management's prior understandings regarding the business of HollySys, the Chardan board of directors unanimously resolved to proceed with the acquisition process and continue to work towards execution of a definitive stock purchase agreement.

The parties continued to exchange revisions to the stock purchase agreement, and on January 31, 2006 the board of directors of Chardan met to review the transaction documents and make a decision regarding the acquisition of the Gifted Time Stockholders' ownership interest in HollySys. Among other things, the board of directors reviewed the latest forms of stock purchase agreement, the stock consignment agreements and the employment agreements for the key employees of the combined companies. The board of directors also reviewed the disclosure schedules to the stock

purchase agreement. After further considering 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.

The stock purchase agreement was signed on February 2, 2006. Chardan issued a press release on 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.

Effective as of March 25, 2006 and June 5, 2006, the Parties amended the stock purchase agreement. Copies of the amendments to the stock purchase agreement are contained in Annex A.

Board Consideration and Approval of Transaction

The Greatace Due Diligence Report

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 Gifted Time 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 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, made a presentation of 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 Gifted Time Stockholders, Chardan did not receive services from any financial advisor other than Greatace.

Greatace subsequently reduced its due diligence presentation to a report, which it delivered to Chardan on November 30, 2005 and revised on December 8, 2005. That due diligence report covered the following topics relating to HollySys and its business:

- Corporate History and Development;
- Industry and Market Analysis;
- Business Model
- Operations
- Financial Performance
- Business Forecasting
- Legal Proceedings
- Intellectual Property
- Significant Contracts and Commitments
- Properties

The report of Greatace confirmed and elaborated on the information previously provided by HollySys management to Chardan. The report included confirmation that HollySys was actively engaged in industrial, rail and nuclear power segments of the industry. The report also noted points of distinction between HollySys and its competitors, such as the integration of chip design and dedicated software, as a way of increasing performance while controlling costs.

The report noted that Distributed Control Systems, a type of process automation system in which HollySys specializes, were reported to have had strong growth in 2004 (26% over 2003), with a continuation of that growth expected to continue. HollySys was identified as the second largest company in the market, behind ABB but ahead of Honeywell, Siemens and other recognized names in the business, as well as all domestic Chinese companies. This leading position among domestic Chinese automation companies was judged to be a very important positive factor favoring the transaction with HollySys. HollySys' position in the nuclear power and railway markets (both interurban

and commuter rail) were also confirmed. All of these sectors were judged likely to experience rapid growth in the future based on government planning documents, as the demand for power and transportation services was being driven by the strong growth in China's economy generally and by its increasing industrialization. HollySys, as the leading domestic provider of such products and services, was considered well-positioned to benefit from that growth.

The report also discussed the historical financial performance of HollySys, which, while helpful, was considered secondary to the results of the HollySys audits, which had not yet been delivered.. That financial information showed a history of growth in the industrial automation, rail and nuclear power operations of HollySys. To help confirm the reliability of the financial information, the report examined revenue recognition policies, the quality of the company's accounts receivable and its inventory practices, which were considered to be adequate to render the financial information a reliable indicator of the financial condition of HollySys.

Analysis of cash flows for 2003 through 2005 showed that HollySys had significant positive cash flows for 2004 and 2005, consistent with an expanding business with growing profits.

An important item in the report was the comparison from year to year of the value of contracts obtained in various sectors. The value of contracts is distinct from revenue, in that HollySys' projects often take place over two or more fiscal years. As a result, revenue from a contract entered into in one year may not be fully recognized in that year or even the next. However, growth in the dollar value of contracts is an indicator that the business is expanding, and it provides information useful to projecting future revenues and profits. The dollar value of contracts for 2004 compared with 2003 increased more than 140%, attributable to a near doubling of industrial automation orders and an increase in subway automation orders (a subset of railways) of more than 1400%. Orders for subways fell below 2003 levels in 2005, reflecting the fact that new subway projects were not being bid and awarded during that period, but despite that fact, the total value of contracts awarded during 2005 remained more than double those in 2003, indicating that HollySys could sustain a high rate of growth in revenues.

One of the most critical aspects of the Greatace report was its assessment of the HollySys forecasts for future growth, as this was a significant basis for the valuation of HollySys by Chardan's management. The exercise of forecasting, and therefore the evaluation of forecasting practices, is inherently uncertain. However, Greatace determined that HollySys was forecasting annual growth on a company-wide basis of more than 30% per year through fiscal 2010. It examined the reasonableness of those projections based on the anticipated growth in demand in each of the markets and the capabilities of HollySys to compete in those markets, which it considered to be well-established except in the interurban rail system market, where HollySys was working to develop a stronger presence.

In addition to examining projections for the volume of HollySys' business, Greatace looked at the projected pricing HollySys might achieve. In general terms, HollySys had historically priced its products significantly below foreign competitors, its principal competition, but slightly above its less capable domestic competitors. Due to its low cost structure and efficiencies, Greatace concluded that it was reasonable to expect that HollySys could preserve its margins, even if prices increased only slowly.

In sum, the Greatace report confirmed what HollySys management had told Chardan previously: that its capabilities were substantial, its prospects for growth significant and the ability to compete on price and quality terms with its foreign and domestic competition were demonstrable. While these projections and assessments may not be accurate, Chardan's management believed that they, together with the variable portion of the consideration based on actual future performance, constitute a reasonable basis for structuring and pricing a transaction to acquire control of HollySys.

In addition to the information contained in the due diligence report, Greatace obtained from HollySys a market study HollySys had commissioned to use in guiding its efforts to focus its business on profitable activities that promised significant growth. A copy of that market study was provided to Chardan as well. The market study was generally consistent with the outlook of HollySys (and likely formed the basis for at least part of that outlook), which is that the automation industry in China is expected to continue a healthy expansion.

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 the warrants they hold to acquire 220,000 shares of Chardan's common stock at an exercise price of \$5.00 per share will expire worthless. These warrants have a market value of \$__ per warrant, based on the closing price on _____, 2006.

· Chardan's executives and directors and certain of their affiliates 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 _____, 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 Gifted Time Stockholders 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 previous experience in performing and evaluating due diligence of acquisition targets and in valuing companies, including Chinese companies. With respect to Dr. Propper, the experience includes his work as a general partner of Montgomery Medical Ventures, which in the early 1990's was among the largest medical venture funds in the country, and his other business activities since. Mr. Huang has extensive experience as a result of his work with Everbright Securities, and Mr. Zhang has worked for approximately two decades in transactions involving the evaluation of Chinese operating companies. One director, Mr. Kerry Propper, is the Chief Executive Officer of Chardan Capital Markets, a registered NASD broker dealer, and in that role is regularly involved in a variety of transactions, such as the private placement of securities, which involve the valuation of businesses. The other three directors, Dr. Propper and Messrs. Zhang 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. The experience of these individuals in performing and evaluating due diligence of acquisition targets and valuing companies enabled them to review the report and recommendations of Greatace critically and thoroughly.

Recent relevant experience of Chardan's management includes their successful conclusion of the acquisition of State Harvest Holdings, Ltd. by Chardan China Acquisition Corp. (now Origin Agritech, Ltd.) and a reverse acquisition of between Diguang International Development Co., Ltd. (formerly Online Processing, Inc.) and Diguang International Holdings, Limited, a British Virgin Islands holding company whose Chinese operating subsidiary is engaged in the production of backlights for liquid crystal displays used in appliances and consumer electronics. With regard to the latter transaction, Dr. Propper and Messrs. Zhang and Huang participated as principals of Chardan Capital, LLC, and Mr. Propper participated by virtue of the fact that Chardan Capital Markets, LLC (which is not affiliated in any way with Chardan Capital, LLC) acted as a placement agent for a \$12 million private placement that occurred in connection with that reverse acquisition.

The Chardan board of directors considered a wide variety of factors in connection with its evaluation of the stock purchase. Many of those factors, such as the international experience and English speaking abilities of Wang Changli,

the CEO of HollySys, were not susceptible of quantification. Those that could be quantified, such as the value of the company if certain net income levels were achieved, were quantified, and some of the factors considered, such as historical growth rates, were inherently quantitative in nature. The Chardan board of directors did not consider it useful to assign relative weights to the specific factors it considered in reaching its decision. Rather, once it concluded that the pricing of the transaction would provide value to Chardan's stockholders if projections of future net income were met, it focused instead on the relative collective weight of the other positive factors (of which there were many) and the negative factors (of which there were very few) in making its decision.

In considering and deciding to enter into the stock purchase, the Chardan board of directors gave considerable weight to the positive factors discussed below, and they considered the negative factors discussed below under the heading "Potential Disadvantages of the Business Combination with HollySys."

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

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 profits, and that it have what Chardan believes to be a potential to experience significant growth in net income in the future, as that is a principal factor in driving shareholder value. Based on its evaluation of HollySys, the Chardan board considered the potential growth in net income to be one of the strongest factors favoring a business combination with HollySys.

Chardan's board of directors determined 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 has substantial revenues; subsequent to the Chardan Board's consideration, HollySys reported revenues of approximately \$90 million for fiscal 2006, an increase of 13%, compared to 2005.

The increase in revenues produced an even larger increase in operating income, from \$13.87 million in 2005 to \$18.99 million in 2006, a nearly 37% gain. That was in line with the projections of Chardan's management, which estimated a growth rate of roughly 30% for the next four to five years. Net income of Gifted Time (the net income of HollySys adjusted for the minority interest not held by Gifted Time) also grew by a substantial 31.7%, from \$13.7 million in 2005 to \$18.05 million. HollySys appears to be well-positioned for its growth to continue. Its backlog, which is the total value of all open contracts less the revenue recognized from those contracts, is also expanding. HollySys' backlog as of June 30, 2006 was \$86.75 million, an increase of more than 22% from \$71 million as of June 30, 2005.

Chardan's board of directors believes that HollySys and the HollySys Operating Companies have the ability to continue the growth that they have demonstrated over the past several years for a variety of reasons, including:

- HollySys has risen to a leadership position in the Chinese automation industry in the nine plus years that it has been in operation. According to China Industrial Control Network (CICN), HollySys ranks second to ABB in the Chinese distributed control systems market;
- The prospect that China's industrial expansion, which creates demand for HollySys' products, will continue for the foreseeable future, creating the opportunity of increased growth even if HollySys simply maintains its domestic market share, and providing even more rapid growth if HollySys continues to gain market share;
- The acceptance of HOLLiAS, the company's platform technology introduced in 2004, which has helped to fuel its subsequent growth. This integrated, enterprise-wide management information and control system differentiates HollySys from many of its competitors;
- 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' entry into the international market, which will significantly increase the opportunity for sales of its products. Target markets include Asian countries that are becoming increasingly industrialized, such as India, Pakistan and Vietnam, as well as Western Europe and the U.S. Having demonstrated that its product quality is acceptable to western and Asian companies such as BASF and Toshiba, HollySys' comparative cost advantages, due to the low salary and wage structure in China relative to its Japanese and western competitors, should enable HollySys to compete effectively in those markets, helping to sustain the expansion of its business.

Revenue growth is important, but it is not sufficient. The ability to preserve margins is another critical aspect of the long term profitability of a business enterprise. A variety of factors indicate to Chardan's management that HollySys

will be able to preserve its margins to a significant degree for the foreseeable future, a strong factor favoring a business combination with HollySys. Those factors include the fact that, due to its lower cost structure, HollySys is already able to price its products and services substantially below those of its principal international competitors and still maintain its margins. This price differential, together with the high quality that HollySys offers, is what has enabled it to achieve a position of market leadership in China. While HollySys products and services are generally priced above its domestic competitors, its differentiation in terms of quality and capability make it less susceptible to competition from those other market participants.

Other factors favor the preservation of HollySys' margins. As it expands its sales, HollySys will have a larger revenue basis over which to distribute its general and administrative costs. The affordability of the Chinese engineers on which it relies heavily is expected to continue, as the number of those engineers graduating each year exceeds the demand in the marketplace for new engineers. While price competition in China is significant, HollySys is also expanding into international markets where the sensitivity to price is not as great. At the same time, the limited number of competitors for significant portions of HollySys domestic business, such as in nuclear power and railways, suggests that HollySys will not face significant downward pricing pressure on those portions of its business in the short or medium term.

In view of the substantial opportunities for HollySys to expand its business, and the reasonable prospect that it can preserve its margins in the process, its potential for future profit growth was judged to be high. Future profitability is a key consideration in determining the value of a business, and therefore the price of its stock. The board of directors concluded that sustained increases in the share price of HLS stock, should the shareholders approve the business combination between HollySys and Chardan, was reasonably likely to occur, providing substantial benefit to the Chardan stockholders.

A Business Combination with Chardan Would Add to HollySys' Momentum.

HollySys has achieved its position as a market leader in China as a growing, private company. However, by virtue of the proposed business combination between Chardan and Gifted Time, HollySys acquires the positive attributes of a public company. Those attributes are important to maintaining and building the momentum of HollySys for further growth in a number of ways. For example, it provides HollySys with access to additional capital (either from the exercise of the warrants, a public offering of its stock or use of its own stock as consideration) in the event it decides to drive additional organic growth or to augment that growth through acquisitions.

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

Another criterion important to Chardan's board of directors in selecting 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 many decades, the industry is undergoing a shift from analog to digital technologies that the widespread adoption of computers has enabled. The more effective, rapid and precise degree of data collection, transmission, analysis and response that is possible with digital technologies permits a broader application of control technologies to more processes and more aspects of each process. The resulting increase in capabilities for control systems not only opens up new industrial segments as potential customers, but it also leads to opportunities for the upgrade and replacement of legacy systems by newer, more capable and reliable systems. This continued expansion of the automation industry is reflected by the fact that global spending on distributed control systems is expected to grow from \$10.3 billion in 2004 to \$14 billion by 2009. The position of HollySys as a high quality, low cost producer of such systems positions it advantageously to benefit from all of these trends, which will redound to the benefit of Chardan's shareholders.

In addition to trends internal to the industry, the expansion of the industrial sector of the Chinese economy, which is the current principal market for HollySys' products, is expected to continue at a rapid rate. That will give HollySys the opportunity to expand its customer base, revenues and net income. Even globalization has contributed to growth opportunities. Manufacturers face increasing pressure to deliver consistent quality at low cost, results that they can achieve only with the use of sophisticated control systems that are increasingly available from the suppliers of industrial automation equipment, including HollySys.

For more information on the Chinese and global industrial automation markets, see "Information about the HollySys Operating Companies - Market Overview."

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 concluded that HollySys' management has demonstrated that ability, addressing critical issues such as the development of its HOLLiAS 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 and underserved segments, such as nuclear power and rail transportation. By utilizing its growing revenues to expand its market share and develop additional products, HollySys' management has 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 and western work experience of HollySys' chief executive, Wang Changli, were also judged to be factors supporting the company's plans to expand internationally and of help in keeping the investing public effectively apprised of what is taking place within the company.

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 just under 20% of the current public stockholders of Chardan could vote against the stock purchase and demand to redeem their shares for cash. That would not prevent the transaction from closing but it would reduce the amount of cash available to the combined companies following the stock purchase or could cause a condition of the stock purchase agreement not to be met if not taken into account. For that reason, Chardan structured the payment terms in the stock purchase agreement to reflect this possibility by deferring some of the cash portion of the consideration, the exact amount depending on the amount of Chardan's stock that is redeemed. 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 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 distributed control systems 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 Gifted Time 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, 39 authorized patents, 15 software copyrights and 18 registered trademarks. The report also provided information on the real property owned by the HollySys Operating Companies.

The specific and overall results of the Greatace due diligence investigation served to confirm the strong market position of HollySys and the attractiveness of its future opportunities. A more detailed description of the Greatace due diligence report is provided above under the heading “The Greatace Due Diligence Report.”

Valuation Information

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. [For example, Mr. Propper assumed in his projections that 2006 revenues would be \$91,433,000, and net income would be \$17,541,000. While HollySys had revenues of about \$1.5 million less than the assumption, its net income, the more significant factor of the two, was \$18.99 million, which exceeded the assumed net income that Mr. Propper used in his projection by nearly \$1.5 million.] 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 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 relative to the price being paid. 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 Gifted Time Holdings.

A more detailed discussion of the analysis that Mr. Propper performed is presented below, under the heading "Satisfaction of the 80% Test."

Potential Disadvantages of the Business Combination with HollySys

The Chardan board of directors also evaluated potential disadvantages of a business combination with HollySys. They were not able to identify any meaningful factors associated specifically with HollySys or its industry. The most significant potential drawback associated with HollySys is the potential for an unevenness in its revenues due to the fact that a number of the projects it works on each year are relatively large when compared with the majority of its projects. These large projects tend to be in the infrastructure area (railway and power plants). Both the variability in the occurrence of these projects and the potential for delays in them can pose difficulties for forecasting labor needs and scheduling work. A delay in several of these large contracts, as occurred in the third quarter of 2006, can cause shifts in revenues and earnings, which could lead to volatility in the company's share price. The Board concluded that this aspect of HollySys' business was minor in comparison to the positive aspects of the transaction, especially since, as HollySys grows, the tendency will be for its work flows and revenues to even out.

In addition, the Chardan Board believed that there is a relatively easy means of compensating for that unevenness in revenues when analyzing the health of HollySys' business, which is to look not just at revenues and profits, but also at backlogs, the total of unrecognized revenue associated with executed contracts. To the extent that there has been a delay in performance of one or more contracts, revenues will not be as great, but the backlog will be larger as a result. By looking at the total of revenues for a given period and the backlog existing as of the end of that period, it is possible to determine the rate at which the business is expanding. This aspect of HollySys' business has been described below in Management's Discussion and Analysis section relating to Gifted Time Holdings' financial results. As a result of the ability to compensate fairly readily for this factor when assessing the performance of HollySys, the Board believed that its effects should be minimal.

The Chardan Board considered the methods by which Gifted Time Holdings would own or control Beijing HollySys. The Chardan Board recognized that the need to use stock consignment agreements added complexity to the transaction as a result of the interim lack of record ownership and the required subsequent ownership transfers. These stock consignment agreements are discussed in greater detail below under the heading "Stock Consignment Agreements." On the basis of its discussions with counsel, the Chardan board of directors concluded that the use of stock consignment agreements, as described, are an acceptable method for obtaining a controlling interest in

HollySys.

The board of directors also identified other factors that it considered to be potential negative aspects of this transaction. The heavy reliance of HollySys on manufacturing and infrastructure projects leaves it vulnerable to a general downturn of activity in those areas both in China and worldwide. However, all candidates for a business combination present a similar vulnerability to industry-wide trends.

Another consideration was the ability of HollySys management, which will become the management of HLS, to manage its anticipated growth. The board of Chardan recognized this to be a realistic concern. However, it decided it was not possible to reconcile the competing considerations of providing Chardan stockholders with an opportunity for significant appreciation of the value of their investment, which implies a meaningful and sustained rate of growth in revenues and income, and the prospect that the existing management might not be able to continue to manage that growth effectively.

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Similarly, the need for the management of HLS subsequent to the business combination to alter its perspective from that of managing a private company to that required for a company whose stock will be publicly traded in the US is a legitimate concern. However, that same concern would apply to any private company with which Chardan sought to combine. In the case of HollySys, the management of Chardan has attempted to ensure that the management of HLS after the stock purchase will appreciate those obligations and will be committed to fulfilling them. In addition, the directors considered the international experience of Wang Changli and his strong English skills to be factors that favored HollySys as a candidate relative to other prospects in this regard.

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 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 of 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	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	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						20.16

The board made several assumptions in deriving statistics about HollySys that were used solely for the purpose of management's determining a value of HollySys. Investors should not place any weight on these projections, because any projection is subject to many assumptions, some or all of which may not be correct or occur as assumed. The assumptions were for the projection of revenues and net income for 2006. The net income assumption for fiscal year 2006 was \$17,356,000. The projected net income for 2006 was determined to be reasonable in light of the net income for 2003 of approximately \$2,227,000, for 2004 of \$4,735,000, and for 2005 of \$13,703,000 and the level of existing contracts at the time the assessment was made. Deductions were taken for the costs of the acquisition, increased business operations expense and additional general and administrative expenses, notably those associated with being a public company. The 2006 projection was also derived using a 17% margin. It was also assumed that HollySys' long-term debt would not increase, and the company would therefore have static debt of approximately \$6,800,000. Existing cash was assigned a re-investment growth rate of the current LT Treasury Yield, while debt service was assigned a rate of twice the current LT Treasury Yield when computing applicable interest income (expense). The current LT Treasury Yield was set at 3.81%

The board used 30,500,00 as the number of shares outstanding immediately after the transaction, while the fully diluted calculations included the additional shares issuable by the exercise of outstanding warrants.

The starting point was to determine the enterprise value for HollySys, which was derived using the following formula: enterprise value equals market capitalization, plus debt, plus preferred equity, minus cash and cash equivalents. Using this formula, the board of directors arrived at a projected enterprise value for HollySys of \$337,367,000 for 2006, based on projected net income of \$17,356,000 and price earnings ratio of 19.54, producing a market capitalization of approximately \$339,136,000. The foregoing figures take into account the minority interest, since the projected net income figure was after deduction for the minority interest. The Board assumed that debt would be \$6,800,000, as it was at the time of the calculation, and there was no preferred equity issued and outstanding. Cash and cash equivalents were assumed to be \$8,524,000, resulting from the company's ongoing operations.

Based on the assumed 30,500,000 shares that will be outstanding upon completion of the stock purchase, the Board computed a per share price of \$11.12, or approximately double the redemption value of Chardan's common stock. Although the actual 2006 net income of HollySys was not known at the time of the Chardan Board's determination of value, those earnings were \$18.05 million (again, after deduction for the minority interest). Using the comparable price earnings ratio of 19.54 yields a market capitalization of nearly \$353,000,000 and a per share price of \$11.57, which remains well in excess of the redemption value of Chardan's common stock, and continues to support the Board's determination of the benefits of the transaction. Stockholders should note that these evaluation computations are not predictions of the actual market price of HLS either upon consummation of the transaction or at any time after that.

The Chardan board of directors believes because of the financial skills and background of several of its members, it was qualified to make this analysis itself and conclude that the acquisition of the HollySys Operating Companies met this requirement without recourse to an independent source.

By conducting this analysis internally (as opposed to obtaining a third party determination of the satisfaction of the 80% test and the fairness of the transaction to the Chardan stockholders), the Chardan may have assumed additional potential liability in the event of a challenge to the board's actions. Under Delaware law, a director is fully protected in relying in good faith upon the opinions, reports or statements presented by a person as to matters the director reasonably believes are within such person's professional or expert competence and who has been selected by reasonable care. Without that protection afforded by a third party determination, directors could have additional liability (and Chardan could be required to provide indemnification to the directors) if the decision to acquire Gifted Time Holdings was determined to be in violation of the board's fiduciary duties and not covered by the limitations on director liability contained in Chardan's certificate of incorporation.

Conclusion of the Board of Directors

After careful consideration, Chardan's board of directors determined unanimously that each of the stock purchase proposal, the redomestication merger proposal and the stock option proposal is fair to and in the best interests of Chardan and its stockholders. Chardan's board of directors has approved and declared advisable the stock purchase proposal, the redomestication merger proposal and the stock option proposal and unanimously recommends that you vote or give instructions to vote "FOR" each of the proposals to adopt the stock purchase proposal, the redomestication merger proposal, the stock option proposal and the election of directors.

The foregoing discussion of the information and factors considered by the Chardan board of directors is not meant to be exhaustive, but includes the material information and factors considered by the Chardan board of directors.

Stock Consignment Agreements

Chardan's board of directors also considered the methods by which Gifted Time Holdings may own or control Beijing HollySys. Gifted Time Holdings' ownership of HollySys is, in part, through stock consignment agreements that transfer to it all of the incidents of ownership (except for legal title) of a portion of the issued and outstanding stock of Beijing HollySys. Gifted Time Holdings accepted this form of ownership rather than legal title because there were legal restrictions on the transfer of title of the Beijing HollySys stock then held by Wang Changli, who as a principal of Beijing HollySys can transfer no more than 25% of his stock holdings in that company each year. Dr. Wang transferred his equity interests to Gifted Time Holdings by entering into a consignment agreement. Since the other Gifted Time Stockholders (other than Team Spirit and OSCAF) have entered into voting-together agreements with Dr. Wang, they also consigned their equity interests in Beijing HollySys to Gifted Time Holdings in order to act in concert with Dr. Wang and to honor their intention for equal treatment between them, even though the other stockholders are not subject to the same transfer restrictions as Dr. Wang. Each stockholder has entered into a separate consignment agreement. As consideration for the consignment of rights, Gifted Time Holdings issued shares of its common stock to the consigning parties, resulting in each consigning party owning the percentage of Gifted Time Holdings as set forth above under the heading "Summary-Gifted Time Holdings."

In structuring the transaction and in preparing the documentation governing it, Chardan consulted with its legal counsel, which has offices in the PRC, for advice on the use of such consignment agreements as a means for acquiring the stock of a PRC company when that stock is subject to transfer restrictions. Chardan believes that the stock consignment agreements are widely used in these instances, based on the frequency with which Chardan's principals have encountered such agreements in its discussions with dozens of Chinese companies regarding potential transactions. The use of these agreements appears to result from the greater degree of restrictions on stock transfers in China than exists in the US and other jurisdictions. For example, in the transaction between State Harvest Holdings and Chardan China Acquisition Corp., which had the same principals as Chardan, consignment agreements were used to address restrictions on the extent of foreign ownership of the stock of companies involved in the food industry. Beyond its prior experience with these types of agreements, Chardan also had the Beijing office of its counsel review the agreements to identify any concerns with these particular documents, but none were noted.

Although the consignment agreements operate initially as control arrangements (e.g., granting the right to vote the shares covered by the agreement), they provide for transfer of title in the future if and when the restrictions on transfer are no longer applicable. Such transfer of title is to be made without payment of any further consideration by the consignee. Moreover, the consignment agreements restrict the title holder from transferring the shares to another party or taking any action limiting the rights granted to the consignee in the agreements. As a result, the consignment agreement freezes the ownership in the hands of the record/title owner but gives the consignee (in this case Gifted Time Holdings) all the incidents of ownership, including voting, dividend, director nomination, management selection, other than record ownership.

Under the consignment agreements, transfer of record ownership is subject to the directions of the consignee, provided the transfer is lawful. If the consignee (Gifted Time Holdings) requires the consignor to transfer the record ownership of the consigned securities, the consignee and consignor will enter into a Shares Transfer Agreement and apply for approval of such transfer from the PRC Commerce Bureau in accordance with the Provisional Rules on Acquisition of Domestic Company by Foreign Investors. After obtaining approval from the Commerce Bureau, Beijing HollySys would have to re-register its record ownership with the Administration of Industry & Commerce. Under the terms of the proposed transaction, Gifted Time Holdings is the consignee with the right to direct legal title to the stock in Beijing HollySys to be transferred to Gifted Time Holdings. Under the terms of the stock purchase, Gifted Time Holdings is obligated to direct the transfer of the Beijing HollySys stock to Gifted Time Holdings, and the consignor is obligated to effect the transfer, so long as it is a permitted transfer and the transferee is acceptable under PRC law. In this instance, Beijing HollySys will be changed from a joint stock company to a limited liability company following consummation of the stock purchase, so the restriction on transfer relating to the period of time the stock is held by the record owner will no longer apply. Chardan believes that Gifted Time Holdings would be an acceptable transferee under PRC law, and that the transfer of legal title will occur in due course following the transaction between Chardan and the Gifted Time Stockholders.

The stock purchase agreement requires that PRC counsel issue opinions regarding the validity and enforceability of all the consignment agreements involved in this transaction and the validity of the ultimate transfer of title to the Beijing HollySys stock to Chardan and its successors.

The import of the stock consignment agreements is that Gifted Time Holdings, and subsequently HLS, may consolidate the HollySys Operating Companies whose shares are subject to stock consignment agreements in the manner of wholly and majority owned subsidiaries and enjoy the economic benefits of such subsidiaries. The stock consignment agreements are subject to enforceability and limitations of the laws and rules of PRC. The Guantao Law Firm, PRC counsel to the Gifted Time Stockholders, has opined that these agreements are enforceable under current PRC law. The termination of one stockholder's consignment agreement does not cause the termination of any of the other consignment agreements, so it would only result in a reduction in consigned shares under Gifted Time Holdings' control. Because the consignment agreements are entered into by the stockholders who hold in total 74.11% of the equity interests in Beijing HollySys, the stock consignment agreements are enforceable only by such stockholders of

Beijing HollySys, representing 74.11% of Beijing HollySys. Under the consignment agreements, legal actions may be initiated in a “competent jurisdiction,” which refers to the British Virgin Islands, since that is the jurisdiction in which the agreements were entered, although Chinese law will govern the validity of the agreements.

There are five consignment agreements entered into between Gifted Time Holdings and five British Virgin Island companies. The following is a table of the parties to the consignment agreements showing the percentage of shares of Beijing HollySys consigned by each party:

Consigned Stock	Consigning Owner	% of Total Shares
Beijing HollySys	Ace Lead Profits Limited (Wang Changli)	14.23%
Beijing HollySys	Plus View Investments Limited (Luo An)	9.88%
Beijing HollySys	Acclaimed Insight Investments Limited (Cheng Wusi)	24%
Beijing HollySys	Pioneer Sum Investments Limited (Mei Qinglin)	6%
Beijing HollySys	Allied Earn Investments Limited (Shanghai Jinqiaotong Industrial Development Co., Ltd.)	20%

Each consigning owner listed above is a party to a consignment agreement with Gifted Time Holdings in which all of the consigning owner's control rights to Beijing HollySys, representing the percentage of total shares set forth in the table above, were transferred to Gifted Time Holdings.

Protections Against the Loss of Consigned Assets

The structure of the consignment agreements is intended to protect the rights and interests of Gifted Time Holdings in Beijing HollySys.

There are additional corporate protections. The board of directors of HLS will be comprised of a majority of independent persons, one of which initially will be a designee of Chardan. The board of directors will be maintained pursuant to the rules of Nasdaq which require a majority of persons on the board of directors to be independent directors and that transactions with insiders must be approved by an audit committee comprised of independent directors. The consignors will not be deemed independent persons under the rules of Nasdaq, and therefore they will not be eligible to be members of the audit committee. Moreover, HLS has a code of ethics that requires fair dealing by officers and directors in transactions with the company. Although Dr. Wang, one of the persons consigning the shares of Beijing HollySys, will be an officer and director of HLS, the above corporate controls prevent him from taking a decision to terminate the consignment agreement unilaterally for his own benefit. As discussed more fully below under the heading "Chardan Redomestication Merger - Rights of Minority Shareholders", in the event of a breach by Dr. Wang, shareholders (including minority shareholders) are generally entitled to relief and court intervention for acts that constitute fraud on the minority where wrongdoers control the company. These remedies would be in addition to any that HLS, acting through its board (a majority of whom will be independent), may pursue. Thus, only action taken by Gifted Time Holdings, which would be a wholly-owned subsidiary of HLS, to waive or amend the provisions of the consignment agreements would require the approval of the audit committee. Because a termination of a consignment agreement would be a material event, it would be disclosed in an appropriate filing.

A termination of the consignment agreements would be a loss of substantial rights of HLS. HLS is not aware of any laws that provide that the rights held under the consignment agreements are considered an asset of a company; however, HLS intends to assert that the rights under the consignment agreements constitute an asset of HLS because of their substantial value to HLS. Pursuant to the law of the British Virgin Islands applicable to HLS and subject to its Memorandum and Articles of Association, the sale or transfer of 50% or more of the assets of the company requires approval of the shareholders. Such approval would require a meeting of the shareholders to be called and held, with a proxy statement describing the action to be approved and the consequences of the approval.

Pursuant to the stock purchase agreement, each Gifted Time Stockholder who consigns his shares to Gifted Time Holdings will use best efforts to complete the acquisition of the ownership of the consigned stock by Gifted Time Holdings from such Gifted Time Stockholder as soon as such acquisition is permitted by applicable law and

regulations. Once consigned stock is transferred to Gifted Time Holdings, it will no longer be subject to the consignment agreement and a termination of the consignment agreement will not affect the ownership by Gifted Time Holdings.

Material U.S. Federal Income Tax Considerations of the Redomestication Merger

The following discussion summarizes the material United States federal income tax consequences of the redomestication merger to the Chardan stockholders who are “United States persons,” as defined for United States federal income tax purposes and who hold their Chardan common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”). This discussion, insofar as it relates to matters of United States federal tax law and regulations or legal conclusions with respect thereto, constitutes the opinion of DLA Piper Rudnick Gray Cary US LLP as to the material federal income tax consequences of the redomestication merger to Chardan and its stockholders. For United States federal income tax purposes, a “United States person” is:

- a citizen or resident of the United States;
- a corporation, partnership, or other entity created or organized in the United States or under the laws of the United States or any state within the United States;
- an estate whose income is includible in gross income for U.S. federal income tax purposes, regardless of its source; or
- a trust whose administration is subject to the primary supervision of a U.S. court and that has one or more U.S. persons who have the authority to control all substantial decisions of the trust.

The term “non-United States person” means a person or holder other than a “United States person.”

This section does not discuss all of the United States federal income tax considerations that may be relevant to a particular stockholder in light of his or her individual circumstances or to stockholders subject to special treatment under the federal income tax laws, including, without limitation:

- brokers or dealers in securities or foreign currencies;
- stockholders who are subject to the alternative minimum tax provisions of the Code;
 - tax-exempt organizations;
 - stockholders who are “non-United States persons”;
 - expatriates;
- stockholders that have a functional currency other than the United States dollar;
 - banks, mutual funds, financial institutions or insurance companies;
- stockholders who acquired Chardan common stock in connection with stock option or stock purchase plans or in other compensatory transactions; or
- stockholders who hold Chardan common stock as part of an integrated investment, including a straddle, hedge, or other risk reduction strategy, or as part of a conversion transaction or constructive sale.

No ruling has been or will be sought from the Internal Revenue Service as to the United States federal income tax consequences of the redomestication merger, and the following summary is not binding on the Internal Revenue Service or the courts. This discussion is based upon the Code, regulations, judicial authority, rulings and decisions in effect as of the date of this Registration Statement, all of which are subject to change, possibly with retroactive effect. This summary does not address the tax consequences of the redomestication merger under state, local and foreign laws or under United States federal tax law other than income tax law.

Subject to the limitations and qualifications referred to herein and assuming that the redomestication merger will be completed as described in the merger agreement and this Registration Statement, the redomestication merger will constitute a “reorganization” within the meaning of Section 368(a) of the Code, and the following United States federal income tax consequences will result:

Chardan stockholders will not recognize any gain or loss upon the receipt of HLS common stock in exchange for Chardan common stock in connection with the redomestication merger;

- the aggregate tax basis of the HLS common stock received by a Chardan stockholder in connection with the redomestication merger will be the same as the aggregate tax basis of the Chardan common stock surrendered in exchange for HLS common stock;
- the holding period of the HLS common stock received by a Chardan stockholder in connection with the redomestication merger will include the holding period of the Chardan common stock surrendered in connection with the redomestication merger; and
- 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.

The foregoing United States federal income tax consequences is not affected by the changes made to the Code by the American Jobs Creation Act of 2004 in the treatment of domestic business entities which expatriate from the United States to a foreign jurisdiction. These new provisions, under Section 7874 of the Code, generally apply to the direct or indirect acquisition of substantially all of the properties of a domestic enterprise by a foreign corporation if there is at least 60% or 80% of continuing share ownership in the successor foreign entity by the former U.S. corporation's stockholders and substantial business activities are not conducted in the jurisdiction in which such successor is created or organized. Under the Chardan redomestication merger and the stock purchase agreement, following the redomestication merger into HLS, more than 60% of stock of HLS (by vote and by value) will be held by persons who were not holders of Chardan common stock, and accordingly Section 7874 should not apply to HLS.

Because of the complexity of the tax laws, and because the tax consequences to any particular stockholder may be affected by matters not discussed above, each stockholder is urged to consult a tax advisor with respect to the specific tax consequences of the transactions contemplated by the redomestication merger and the stock purchase to him, her or it, including the applicability and effect of state, local and non-U.S. tax laws, as well as U.S. Federal tax laws.

Anticipated Accounting Treatment

The stock purchase transaction will result in the current shareholders of Gifted Time 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 and short-term investments, the transaction has been accounted for as reorganization and recapitalization of Gifted Time Holdings. The cash of \$30 million to be paid to the shareholders of Gifted Time 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 Gifted Time Holdings are recorded at historical cost. Although Gifted Time 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.

Regulatory Matters

The stock purchase and the transactions contemplated by the stock purchase agreement are not subject to the HSR Act or any federal or state regulatory requirement or approval in the United States or British Virgin Islands, except for filings necessary to effectuate the transactions contemplated by the stock purchase proposal with the State of Delaware and the British Virgin Islands. The stock transfer agreements between Gifted Time Holdings and Team Spirit Industrial Ltd. and OSCAF International Co. Ltd. required approval by the applicable Chinese governmental authorities under PRC law. Hangzhou HollySys received approval of the stock transfer agreements from the

Commerce Bureau on February 13, 2006. In addition, in accordance with, Notice on Issues concerning Foreign Exchange Management in PRC Residents' Financing and Return investments through Overseas Special Intention Company, promulgated by the Chinese State Administration for Foreign Exchange ("SAFE"), the Gifted Time Stockholders are required to apply for Foreign Exchange Investment Registration before setting up their respective British Virgin Islands companies and acquiring any equity interest in Gifted Time Holdings. The Gifted Time Stockholders filed all the necessary documents with SAFE in March 2006, and SAFE has accepted the submission. The Gifted Time Stockholders currently are waiting for SAFE to approve their applications submitted in March 2006. Beijing HollySys will also be required to obtain approval from the PRC Ministry of Commerce to become a foreign investment company and will have to register with the Beijing Administrative Bureau of Industry and Commerce. A more detailed discussion of the Notice 75 requirements promulgated by SAFE are in the "Risk Factors" section under the heading "Gifted Time Holdings is Subject to Notice 75 promulgated by SAFE, which requires PRC residents to apply for Foreign Exchange Investment Registration before establishing or controlling an Overseas Special Intention Company ("OSIC")." Aside from the requirements and approvals discussed above, the stock purchase and the transactions contemplated by the stock purchase agreement are not subject to any other foreign regulatory requirements or approvals.

THE STOCK PURCHASE AGREEMENT

The following summary of the material provisions of the stock purchase agreement is qualified by reference to the complete text of the stock purchase agreement, a copy of which is attached as an annex to this proxy statement/prospectus, and is incorporated by reference. All stockholders are encouraged to read the stock purchase agreement in its entirety for a more complete description of the terms and conditions of the stock purchase.

Structure of the Stock Purchase and Redomestication Merger

At the effective time of the stock purchase agreement, Chardan will be merged with and into HLS Systems International Ltd. (“HLS”). HLS will continue as the surviving company. All of the stock of Chardan will be converted into the right to receive stock in HLS on a one-for-one basis. HLS will purchase all the common stock of Gifted Time Holdings, a British Virgin Island corporation, for \$30,000,000 and 23,500,000 shares of common stock, and the additional consideration described below. Through its acquisition of Gifted Time Holdings and the stock consignment agreements, HLS will obtain the ownership or rights to control approximately 74.11% of the stock of Beijing HollySys and 89.64% of the stock of Hangzhou HollySys (including beneficial ownership of 29.64% of the stock of Hangzhou HollySys as a result of Beijing HollySys owning 40% of Hangzhou HollySys). Because the stock purchase agreement is entered into by and between the stockholders of Gifted Time Holdings and Chardan, the agreement is enforceable by the stockholders of Gifted Time Holdings and will be enforceable by the stockholders of HLS after the completion of the redomestication merger.

Closing and Effective Time of the Stock Purchase

The closing of the stock purchase will take place promptly following the satisfaction of the conditions described below under “Conditions to the Completion of the Acquisition,” unless Chardan and the Gifted Time Stockholders agree in writing to another time.

Name; Headquarters; Stock Symbol

After completion of the stock purchase:

- the name of the combined company will be HLS Systems International Ltd.
- the corporate headquarters and principal executive officers will be located at 19 Jiancaicheng Middle Road, Xisanqi, Haidan District, Beijing, China 100096, which is currently the HollySys corporate headquarters; and
- the combined company will cause the common stock, warrants and units outstanding prior to the stock purchase, which are traded on the OTC Bulletin Board, to continue trading on either the OTC Bulletin Board or the Nasdaq Stock Market. HLS intends to apply for listing using the symbols HLSS for the common stock, HLSSW for the warrants and HLSSU for the units.

Purchase Price

The Gifted Time Stockholders (or the parties to which they have assigned their rights) 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 Gifted Time Holdings. A portion of the cash purchase price (at least \$3 million and possibly as much as \$7 million, depending on the amount of funds remaining in the trust amount in the event that any of Chardan's stockholders exercise their conversion rights) will be deferred until HLS receives at least \$60,000,000 in subsequent financing or HLS generates positive after-tax cash flow equal to twice the deferred amount. The initial cash payment will be made with funds in the trust account. The balance of the funds in the trust account will be used

for operational expenses.

As additional consideration, certain Gifted Time Stockholders (or the parties to which they have assigned their rights) will be issued an aggregate of up to 8,000,000 shares of common stock of HLS for each of the next four years (2,000,000 shares per year on an all-or-none basis), if on a consolidated basis, HLS generates after-tax profits (excluding after-tax operating profits from any subsequent acquisition for securities that have a dilutive effect and any expenses derived from the issuance of aforementioned shares by HLS) of at least the following amounts:

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

Representations and Warranties

The stock purchase agreement contains a number of generally reciprocal representations and warranties that the Gifted Time Stockholders and Chardan made to each other. These representations and warranties relate, as applicable, to:

- organization, standing, power;
- capital structure;
- authorization, execution, delivery, enforceability of the stock purchase agreement;
- absence of conflicts or violations under organizational documents, certain agreements and applicable laws or decrees, as a result of the contemplated transaction, and receipt of all required consents and approvals;
 - absence of certain changes or events since September 30, 2005;
 - litigation;
 - compliance with applicable laws;
 - absence of brokers;
 - absence of undisclosed liabilities;
 - accuracy of information contained in the financial statements; and
- completeness and truthfulness of the information and provisions in the stock purchase agreement.

The Gifted Time Stockholders also make representations to Chardan relating to the HollySys Operating Companies regarding:

- ownership of the subsidiary stock;
- labor relations and employee plans;
 - environmental liability;
 - taxes, tax returns and audits;
 - licenses and permits;

- the absence of illegal or improper transactions;
- the collectibility of accounts receivable;
- the nature and condition of inventory;
- the contracts to which they are parties;

- intellectual property rights;
- non-real estate leases;
- insurance;
- the accuracy and completeness of books and records;
- related party transactions; and
- affiliates of Beijing HollySys.

The Gifted Time Stockholders also make representations to Chardan regarding:

- their acquisition of HLS common stock being solely for their own account;
- their status as accredited investors;
- the adequacy of the information they received regarding Chardan;
- the restricted nature of the securities that they will receive under the stock purchase agreement; and
- the placement of legends on the certificates representing the securities issued to them under the stock purchase agreement.

Chardan also makes representations to the Gifted Time Stockholders regarding:

- filings with the SEC and the accuracy and completeness of the information contained in those filings, including the financial statements and the lack of undisclosed liabilities; and
- the amount of funds contained in the trust account.

Materiality and Material Adverse Effect

Many of the representations and warranties made by the Gifted Time Stockholders are qualified by materiality or the use of the term “material adverse effect.” For the purposes of the stock purchase agreement, a “material adverse effect” means a material adverse effect on the business, assets, operations, financial condition, liquidity or prospects of HollySys or the HollySys Operating Companies.

Several of the representations and warranties made by Chardan are qualified by materiality. However, only Chardan’s representation and warranty related to the absence of certain changes and the absence of litigation is qualified by the use of the term “material adverse effect.”

Interim Operations of Chardan and HollySys

Interim Covenants relating to the HollySys Operating Companies and the Gifted Time Stockholders. Under the stock purchase agreement, each of the Gifted Time Stockholders has agreed to use their best efforts to cause the HollySys Operating Companies to conduct business in the usual, regular and ordinary course, in substantially the same manner as previously conducted. In addition to this agreement regarding the conduct of business generally, subject to

specified exceptions, the Gifted Time Stockholders have agreed that, except as otherwise expressly permitted or required by the stock purchase agreement, they will, and they will use their best efforts to cause the HollySys Operating Companies to:

- not declare, set aside or pay any dividends on, or make any other distributions in respect of, any of their capital stock;

- not pledge, sell, transfer, dispose or otherwise encumber or grant any rights or interests to any others in the HollySys stock or the HollySys Operating Companies stock;
- not pledge, sell, transfer, lease dispose of or otherwise encumber any property or assets of any HollySys Operating Company, other than in accordance with past practice or in the normal course of business;
 - not issue, deliver, sell or grant any shares of its capital stock, any securities convertible into or exchangeable for, or any options, warrants or rights to acquire, any shares of capital stock;
- not make or agree to a general wage or salary increase or enter into any employment contract, increase the compensation payable or to become payable to any officer or employee of any HollySys Operating Company or adopt or increase the benefits of any bonus, insurance, pension or other employee benefit plan, payment or arrangement, except for those increases consistent with past practices, normally occurring as the result of regularly scheduled salary reviews and increases, and except for increases directly or indirectly required as a result of changes in applicable laws;
 - not amend the organization documents of the HollySys Operating Companies;
- not merge or consolidate with, or acquire all or substantially all the assets of, or otherwise acquire, any other business operations;
 - not make any payments outside the ordinary course of business;
- not make any capital expenditures, except in accordance with prudent business and operational practices consistent with prior practice;
- provide Chardan with access to information regarding the business of HollySys and the HollySys Operating Companies;
- maintain in effect insurance of the types and in the amounts customarily acquired to protect the assets and business of the HollySys Operating Companies;
- protect the confidential information of the HollySys Operating Companies that they have received in the course of the negotiations;
 - refrain from competing with HollySys or the HollySys Operating Companies;
- refrain from any discussions or negotiations with any other party regarding the issuance of any capital stock or the sale or transfer of any portion of the business of any HollySys Operating Company;
 - refrain from engaging in any transaction involving the securities of Chardan;
- disclose certain material information that arises or comes to be known between the date of the stock purchase agreement and the date of the closing;
- use their best efforts to obtain all authorizations, consents, orders and approvals that may be or become necessary for their execution and delivery of, and the performance of their obligations pursuant to, the stock purchase agreement;
- not acquire any rights to or use any of the intellectual property of HollySys or the HollySys Operating Companies;

- pay any taxes that become due as a result of the issuance to them of HLS common stock;
- do all things necessary to effectuate the HollySys stock purchase transaction contemplated under the stock purchase agreement;

- complete the restructuring related to the formation and ownership of Gifted Time Holdings and have Gifted Time Holdings obtain any required stockholder approval for the stock purchase transaction contemplated under the stock purchase agreement;
- provide to Chardan such information as is necessary regarding Gifted Time Holdings and the HollySys Operating Companies as is required under the rules of the SEC for the proxy statements; and
- provide to Chardan interim internal financial and management reports regarding the conduct of the business of the HollySys Operating Companies.

Interim Covenants relating to Chardan. The stock purchase agreement, among other things, requires Chardan to:

- conduct its business in the ordinary course, not sell or issue any capital securities of Chardan, encumber any of the assets of Chardan or incur any debt out of the ordinary course, not declare or pay any dividend, or make any general wage increase;
 - not change its Certificate of Incorporation, by-laws, articles or other organizational documents;
 - call the stockholders meeting to which this proxy relates;
 - incorporate HLS;
- cause the board of HLS, after the closing, to initially consist of seven persons, of which two members will be designated by the Gifted Time Stockholders, one member will be designated by the board of Chardan and four members will satisfy the independence requirements of Nasdaq; and
 - apply to have the shares of HLS listed in the Nasdaq Global Market following the closing.

No Solicitation by Chardan

Except as described below, generally Chardan will not:

- solicit, initiate or encourage the submission of any acquisition proposal;
- enter into any agreement with respect to any acquisition proposal; or
- participate in any discussions or negotiations regarding, or furnish to any person any information with respect to, or take any other action to facilitate any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any acquisition proposal.

However, Delaware corporate law requires, if Chardan receives a bona fide written acquisition proposal which was not solicited by Chardan, it may, before the stock purchase agreement is adopted by its stockholders, furnish information regarding itself to the person making the acquisition proposal and participate in discussions, but not negotiations, with the person regarding the acquisition proposal, if:

- the board of directors determines, in good faith that the acquisition proposal constitutes or is reasonably likely to lead to a superior proposal; and
- the board of directors determines in good faith that failure to submit such superior proposal to its stockholders would cause the board of directors to violate its fiduciary duties to the stockholders under applicable law.

If Chardan has received a superior proposal, Chardan has the right to terminate the stock purchase agreement, based upon a determination in good faith, relying upon the advice of outside legal counsel, that the failure to terminate is reasonably likely to result in the board of directors breaching its fiduciary duty.

No Solicitation by the Gifted Time Stockholders

The Gifted Time Stockholders have agreed that they will not, and will use their best efforts to cause the HollySys Operating Companies to not:

- solicit, initiate or encourage discussions regarding or the submission of any acquisition proposal;
- enter into any agreement with respect to any acquisition proposal; or
- participate in any discussions or negotiations regarding, or furnish to any person any information with respect to, or take any other action to facilitate any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any acquisition proposal.

The Gifted Time Stockholders will cease immediately all discussions and negotiations regarding any proposal that constitutes, or may reasonably be expected to lead to, an acquisition proposal.

Chardan Stockholders' Meeting

Chardan has agreed to call and hold a meeting of its stockholders, as soon as practicable after the date of the stock purchase agreement for the purpose of seeking the approval of the stock purchase by its stockholders. Chardan has also agreed that it will file all required proxy materials with the SEC and, through its board of directors, recommend to its stockholders that they approve and adopt the stock purchase proposal.

Access to Information; Confidentiality

Chardan and HollySys will afford to the other party and its representatives prior to completion of the stock purchase reasonable access during normal business hours to all of their respective properties and records and will promptly provide to the other party a copy of each document filed pursuant to the requirements of the securities laws the United States, and all other information concerning its business, properties and personnel as the other party reasonably requests. The information will be held in confidence to the extent required by the provisions of the confidentiality agreement between the two parties.

Reasonable Efforts; Notification

Chardan and the Gifted Time Stockholders have agreed that they will use all reasonable efforts to take all actions, and to do all things necessary, proper or advisable to consummate the stock purchase and the transactions contemplated by the stock purchase agreement in the most expeditious manner practicable. This includes:

- obtaining all necessary actions or non-actions, waivers, consents and approvals from governmental entities and making all necessary registrations and filings, including filings with governmental entities, if any, and taking all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any governmental entity;
- obtaining all necessary consents, approvals or waivers from third parties;
- defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging the stock purchase agreement or any other agreement contemplated by the stock purchase agreement or the consummation of the stock purchase or other transactions contemplated by the stock purchase agreement including seeking to have any stay or temporary restraining order entered by any court or other governmental entity vacated or reversed; and

·executing and delivering any additional instruments necessary to consummate the stock purchase or other transactions contemplated by the stock purchase agreement and to fully carry out the purposes of the stock purchase agreement and the transaction agreements contemplated by the stock purchase agreement.

The Gifted Time Stockholders will give prompt notice to Chardan, and Chardan will give prompt notice to the Gifted Time Stockholders, of:

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- any representation or warranty made by it contained in the stock purchase agreement becoming inaccurate or misleading; or
- the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under the stock purchase agreement.

However, no notification will affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under the stock purchase agreement or the agreements contemplated thereby as originally made. Accordingly, such notification may permit a termination of the stock purchase agreement.

Indemnification

The Gifted Time Stockholders shall indemnify and hold harmless Chardan (or HLS after the closing) for any damages, whether as a result of any third party claim or otherwise, which arise from or in connection with the breach of representations and warranties and agreements and covenants of the Gifted Time Stockholders. Chardan shall indemnify and hold harmless each Gifted Time Stockholder for any damages, whether as a result of any third party claim or otherwise, which arise from or in connection with the breach of representations and warranties and agreements and covenants of Chardan, which will be assumed by HLS upon the redomestication merger. Claims may be asserted once the damages exceed \$250,000. Any indemnification payments shall be deemed to be an adjustment to the purchase price. Any party entitled to indemnification has the right to adjust any amount that it would otherwise pay (under the stock purchase agreement or any other agreement) to a party obligated to provide indemnification. As discussed under the heading "Enforceability of Civil Liabilities Against Foreign Persons," HLS may have difficulty enforcing a judgment for indemnification against Gifted Time Stockholders. However, HLS would be able to reduce the amount of any future payments to Gifted Time Stockholders (including the deferred cash payment or any additional consideration based on after tax profits of HLS) in the event of indemnification claims.

The determination to assert a claim for indemnification against the Gifted Time Stockholders for the benefit of Chardan (or HLS after the closing) will be determined by an independent committee of the board of directors of Chardan. The independent committee of the board of directors will consist of at least two persons, as selected by the board of directors, none of whom is an officer or employee of Chardan (or HLS after the closing) and its subsidiaries or is the direct or beneficial owner of 5% or more of the voting capital stock of Chardan (or HLS after the closing).

Expenses

Except as provided in the stock purchase agreement, all fees and expenses incurred in connection with the stock purchase and the other transactions contemplated by the stock purchase agreement will be paid by the party incurring such expenses, whether or not the stock purchase is consummated. The Gifted Time Stockholders have agreed they have no right to claim or be paid any amount from the Chardan trust account, except on consummation of the stock purchase agreement.

Public Announcements

Chardan, on the one hand, and the Gifted Time Stockholders, on the other hand, have agreed:

- to consult with each other before issuing, and provide each other the opportunity to review and comment upon, any press release or other public statements with respect to the stock purchase and the other transactions contemplated by the stock purchase agreement; and
- not to issue any press release or make any public statement prior to this consultation, except as may be required by applicable laws or court process.

Conditions to the Completion of the Acquisition

Consummation of the stock purchase is conditioned on the stockholders of Chardan, at a meeting called for these purposes, (i) approving the stock purchase agreement and related transactions, and (ii) approving the merger of Chardan into HLS for the purpose of corporate reincorporation and redomestication in the British Virgin Islands, which will include retention of the HLS name and an increase in the authorized capital of the current company. The stockholders will also be asked to adopt a stock plan, but the stock purchase and redomestication transactions are not dependent on the approval of this plan.

In addition, the stock purchase agreement is conditioned upon (i) no order, stay, judgment or decree issued by any governmental authority preventing, restraining or prohibiting in whole or in part, the consummation of the transactions contemplated in the stock purchase agreement, (ii) execution and delivery to each party of each of the various transaction documents, (iii) delivery by each party to the other party of a certificate to the effect that the representations and warranties of each party are true and correct in all material respects as of the closing and all covenants contained in the stock purchase agreement have been materially complied with by each party, and (iv) receipt of necessary consents and approvals by third parties and completing necessary proceedings.

The obligations of each Gifted Time Stockholder to consummate the transactions contemplated by the stock purchase agreement also are conditioned upon each of the following, among other things:

- HLS will have delivered the HLS stock and made the payments specified in the stock purchase agreement, and the Gifted Time Stockholders will have received confirmations of the payment of the cash portion thereof and such other documents, certificates and instruments as may be reasonably requested by the Gifted Time Stockholders;
- the Gifted Time Stockholders must have received a legal opinion, dated as of the closing, from DLA Piper Rudnick Gray Cary US LLP, counsel to Chardan;
 - HLS will be an existing company under the laws of the British Virgin Islands;
- Gifted Time Holdings shall have entered into, effective as of the closing, the employment agreements with the key executives, Dr. Wang Changli and Madame Qiao Li, the forms of which are exhibits to the stock purchase agreement;
- Chardan must have performed all its obligations and all of Chardan's representations and warranties must be true and correct;
- at the closing, there will have been no material adverse change in the assets, liabilities or financial condition of Chardan and HLS from that shown in the Chardan balance sheet and related statements of income, and between the date of the stock purchase agreement and the closing date, there will have not occurred an event which, in the reasonable opinion of HollySys, would have had a material adverse effect on the operations, financial condition or prospects of Chardan and HLS;
- effective as of the closing, the directors of Chardan who are not continuing as directors and officers of Chardan (or HLS, as the case may be) will have resigned and agreed that they have no claim for employment compensation in any form from Chardan; and
 - disbursement of funds held in the trust account maintained for Chardan.

The obligation of Chardan to consummate the transactions contemplated by the stock purchase agreement also are conditioned upon each of the following, among other things:

- the Gifted Time Stockholders will have delivered the Gifted Time Holdings stock;
- the stock consignment agreements will have been executed and delivered;
- at the closing, there will have been no material adverse change in the assets, liabilities, financial condition or prospects of Gifted Time Holdings, the HollySys Operating Companies or its business from that shown or reflected in the financial statements of September 30, 2005 and as to be described in the Chardan proxy statement, and between the date of the stock purchase agreement and the closing date, there shall not have occurred an event which, in the reasonable opinion of Chardan would have a material adverse effect on Gifted Time Holdings or the HollySys

Operating Companies;

·the information about Gifted Time Holdings, the HollySys Operating Companies and their subsidiaries and management provided for inclusion in the Chardan proxy statement at the time of its distribution and at the closing, will accurately reflect the business, Gifted Time Holdings, the HollySys Operating Companies and the Gifted Time Stockholders, and not contain any untrue statement of a material fact or omission;

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- Chardan must have received a legal opinion, dated as of the closing, from Guantao Law Firm, counsel to the Gifted Time Stockholders, regarding the validity and enforceability of the stock consignment agreements;
- Gifted Time Holdings, the HollySys Operating Companies and each Gifted Time Stockholder must have performed all their obligations and all of their representations and warranties must be true and correct; and
- each of Dr. Wang Changli and Madame Qiao Li will have entered into the form of employment agreement which is an exhibit to the stock purchase agreement.

Termination

The stock purchase agreement may be terminated at any time, but not later than the closing as follows:

- by mutual written consent of Chardan and the Gifted Time 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 December 31, 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 10 business days of the notice of an intent to terminate, provided that the terminating party is itself not in breach;
- 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 redomestication merger and the transactions contemplated thereby 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 the initial public offering are presented for conversion into the pro rata portion of the trust account in accordance with the Chardan certificate of incorporation.

Neither HollySys, the HollySys Operating Companies nor the Gifted Time Stockholders have any right to damages from Chardan or HLS, and they have no right to any amount held in the trust account, and they 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.

Effect of Termination

In the event of proper termination by either Chardan or the Gifted Time Stockholders, the stock purchase agreement will become void and have no effect, without any liability or obligation on the part of Chardan or the Gifted Time Stockholders, except in connection with the confidentiality obligations set forth in the stock purchase agreement.

Amendment

The stock purchase agreement may be amended at any time before or after receipt of the approval from Chardan's stockholders. However, after receipt of the approval from Chardan's stockholders, the parties may not, without further stockholders' approval, amend the stock purchase agreement, in a manner that by law requires further approval by the stockholders of Chardan. In addition, no amendment will be binding on any of the parties unless such amendment made in writing by all of them.

Chardan and the Gifted Time Stockholders have entered into two amendments to the stock purchase agreement. The First Amendment to the stock purchase agreement, dated March 25, 2006 (i) revised the preamble to the stock purchase agreement and (ii) revised the stock purchase agreement to state that the employment agreements for Dr. Wang and Madam Qiao will be entered into with Gifted Time Holdings instead of with Beijing HollySys. The Second Amendment to the stock purchase agreement, dated June 5, 2006, (a) changed the number of the board of directors from nine to seven and (b) extended the termination date to December 31, 2006. Both amendments to the stock purchase agreement are included in Annex A to this proxy statement/prospectus.

Extension; Waiver

At any time prior to the consummation of the stock purchase, Chardan and the Gifted Time Stockholders may extend the time for the performance of any of the obligations or other acts, waive any inaccuracies in the representations and warranties or waive compliance with any of the conditions. Such extension of time or waiver may be agreed to by Chardan even after the meeting of stockholders to approve the transaction if Chardan's board of directors determines the matter not to have a material effect on the value of the transaction for Chardan's stockholders and that it is in the best interest of Chardan and its stockholders to do so. However, we anticipate that the transaction will close promptly (within a week) after stockholder approval of the transaction, and we do not anticipate that at the time of the stockholder vote any material condition to performance of the agreement will remain unfulfilled. In the event that any material condition is unfulfilled or an inaccuracy in the representations and warranties of the Gifted Time Stockholders is identified after the effective date of this registration statement, we would file a post-effective amendment of this Form S-4 and would provide the content of that amendment to our stockholders as of the record date in the manner prescribed by Commission rules prior to conducting the stockholder meeting, if necessary adjourning or postponing the stockholder meeting in order to do so.

Employment Agreements

Each of Dr. Wang Changli and Madame Qiao Li will enter into a three-year employment agreement with Gifted Time Holdings. Dr. Wang will be employed as the chief executive officer, and Madame Qiao Li will be the chairperson. Each of the agreements provide for an annual salary of \$120,000 and a discretionary cash bonus that can be up to 250% of the annual salary, as the compensation committee determines. The executives will be entitled to insurance benefits, five weeks vacation, a car and reimbursement of business expenses and, if necessary, relocation expenses. The agreements will be terminable by HollySys for death, disability and cause. The executive may terminate for good reason, which includes HollySys' breach, the executive's not being a member of the board of directors, and change of control. The agreements contain provisions for the protection of confidential information and a three-year-after employment non-competition period within China.

Officers of the Combined Company

After the consummation of the stock purchase, the board of directors will appoint the following executive officers:

- Dr. Wang Changli as the chief executive officer, and
- Madame Qiao Li as the chairperson.

CHARDAN REDOMESTICATION MERGER

General

Chardan is reincorporating in the British Virgin Islands and in that process changing its name and corporate documents and establishing a new board of directors. The redomestication merger is an obligation under the stock purchase agreement with the Gifted Time Stockholders.

We believe that the reincorporation in the British Virgin Islands (BVI) will give the continuing company more flexibility and simplicity in various corporate transactions. We also believe that being reincorporated in the BVI will facilitate and reduce the costs of any further reorganization of the HollySys Operating Companies and permit the creation and acquisition of additional companies in China as the business of HollySys expands. We believe that the reincorporation will reduce taxes and other costs of doing business by HLS in the future because its operations will be in China after the acquisition. The BVI has adopted a BVI Business Companies Act that allows for flexible and creative corporate structures for international businesses. Further, BVI business companies are wholly exempt from BVI tax on their income. As part of the reincorporation, Chardan's corporate name will be that of the surviving company, "HLS Systems International, Ltd."

Reincorporation in the BVI will entail some risks for Chardan stockholders. Upon completion of the stock purchase transaction, holders of Chardan stock will represent a minority of the outstanding shares of HLS. There is little statutory law for the protection of minority shareholders under the laws of the British Virgin Islands. Similarly, the fiduciary obligations of the HLS directors under British Virgin Islands law are not as clearly established as they would be under the statutes or judicial precedent in some jurisdictions in the United States, and British Virgin Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. These risks are discussed in greater detail in the "Risk Factors" section under the heading "Risks Related to the Ownership of Our Stock."

The full texts of the Plan of Merger and the Memorandum and Articles of Association of HLS are set forth in annexes to this proxy statement/prospectus. The discussion of these documents and the comparison of rights set forth below are qualified in their entirety by reference to those annexes.

Adoption of the Redomestication Merger

The board of directors has approved the reincorporation plan and redomestication merger and recommends that the stockholders of Chardan approve it.

The affirmative vote of the holders of a majority of the shares outstanding of Chardan is required for approval of the reincorporation plan and redomestication merger. Abstentions and broker non-votes will have the effect of a vote against the proposal.

The reincorporation plan will not be implemented if the stock purchase agreement is not approved or the stock purchase is not consummated. The stock purchase will not be consummated if Chardan does not reincorporate in the BVI.

The board of directors unanimously recommends a vote "FOR" the approval of the reincorporation plan and redomestication merger.

Plan of Reincorporation and Redomestication Merger

The reincorporation will be achieved by the merger of Chardan, a Delaware company, with and into HLS, a BVI corporation, which is wholly owned by Chardan at this time, with HLS being the surviving entity. The Memorandum of Association and the Articles of Association, the equivalent of a certificate of incorporation and bylaws of a United States company, of the surviving company will be those of HLS, written in compliance with BVI law. The effectiveness of the reincorporation and the merger is conditioned upon the filing by both Chardan and HLS of a certificate of merger with the State of Delaware and articles of merger with the BVI. Upon the filing of these documents, Chardan will cease its corporate existence in the State of Delaware.

At the time of the redomestication merger, one new share of HLS will be issued for each outstanding share of common stock of Chardan held by our stockholders on the effective date for the reincorporation. Each share of HLS that is owned by Chardan will be canceled and resume the status of authorized and unissued HLS common stock. The Chardan shares no longer will be eligible to trade on the over-the-counter bulletin board market. The shares of HLS will be eligible to trade in their place beginning on or about the effective date of the reincorporation under a new CUSIP number and trading symbol. The symbol will be assigned if the market will be the OTCBB or will be as determined with the approval of Nasdaq if that is where the shares will trade upon consummation of the stock purchase.

Your percentage ownership of Chardan will not be affected by the reincorporation. As part of the stock purchase transaction, however, there will be the issuance of additional shares of common stock as partial consideration for the HollySys Companies. As part of the reincorporation, HLS will assume the outstanding warrants of Chardan on the same terms as currently issued. In addition, HLS will assume all other outstanding obligations of Chardan and succeed to those benefits enjoyed by Chardan. The business of Chardan, upon the reincorporation and the acquisition of the HollySys Companies will become that of HollySys.

You do not need to replace the current stock certificate of Chardan after the redomestication merger. **Do not destroy your current stock certificates issued by Chardan.** The issued and outstanding stock certificates of Chardan will represent the rights that our stockholders will have in HLS. Stockholders, however, may submit their stock certificates to our transfer agent, Continental Stock Transfer and Trust Company, 17 Battery Place, New York, New York 10004 (212-509-4000) for new certificates, subject to normal requirements as to proper endorsement, signature guarantee, if required, and payment of applicable taxes.

If you have lost your certificate, you can contact our transfer agent to have a new certificate issue. You may be requested to post a bond or other security to reimburse us for any damages or costs if the lost certificate is later delivered for sale or transfer.

Management of HLS

The directors of HLS will be seven persons. These will be Wang Changli, Qiao Li, Kerry S. Propper, and four independent directors. The officers of HLS will be Dr. Wang Changli (chief executive officer) and Madame Qiao Li (chairperson). See "Directors and Management of the Combined Company following the Stock Purchase."

Wang Changli and Qiao Li will be employed by Gifted Time Holdings pursuant to written employment agreements described above.

Conversion Rights

Any stockholder of Chardan holding shares of common stock issued in Chardan's initial public offering who votes against the redomestication merger 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 redomestication merger 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. Alternatively, Chardan stockholders who vote against the redomestication merger may elect to exercise their appraisal rights under Delaware law as discussed in the section below. Because the exercise of the conversion rights and the appraisal rights both require a tender of the holder's shares to Chardan, only one right may be elected in respect of the shares.

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.

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Appraisal Rights

Under Delaware corporate law, holders of Chardan common stock who comply with the applicable requirements of Delaware law will have the right to receive an appraised value of their shares in connection with the redomestication merger.

Delaware law entitles the holders of record of shares of Chardan common stock who follow the procedures specified in Section 262 of the Delaware corporate law to have their shares appraised by the Delaware Court of Chancery and to receive the “fair value” (as determined by the court) of such shares as of the effective time of the redomestication merger, instead of the consideration that the holder would otherwise receive in the redomestication merger. In order to exercise appraisal rights, a stockholder must demand and perfect those rights in accordance with Section 262 of the Delaware corporate law. The following is a summary of Section 262 of the Delaware corporate law and is qualified in its entirety by reference to Section 262 of the Delaware corporate law, a copy of which is attached hereto as Annex H. Chardan stockholders should carefully review Section 262 of the Delaware corporate law as well as information discussed below to evaluate their rights to appraisal.

If a holder of Chardan common stock elects to exercise the right to an appraisal under Section 262 of the Delaware corporate law, such stockholder must:

- file with Chardan at its main office in San Diego, California, a written demand for appraisal of the shares of Chardan common stock held (which demand must identify the stockholder and expressly request an appraisal) before the vote is taken on the redomestication merger at the special meeting; and

- continuously hold such shares through the effective time of the redomestication merger.

All written demands for appraisal should:

- be addressed to Kerry Propper, Corporate Secretary, Chardan North China Acquisition Corporation, 625 Broadway, Suite 1111, San Diego, CA 92101,

- be sent to ensure receipt before the vote is taken on the redomestication merger at the special meeting,

- be executed by, or on behalf of, the holder of record, and

- reasonably inform Chardan of the identity of the stockholder and that the stockholder is thereby demanding appraisal of the stockholder’s shares.

Within 10 days after the effective time of the redomestication merger, HLS (the surviving company of the redomestication merger) will give written notice of the effective time to each holder of Chardan common stock who has satisfied the requirements of Section 262 of the Delaware corporate law by timely filing a proper demand for appraisal. Within 120 days after the effective time, either HLS or any stockholder demanding appraisal rights may file a petition with the court demanding a determination of the fair value of the shares of Chardan common stock of all dissenting stockholders. Any stockholder demanding appraisal rights who desires the court to make the determination of fair value should file the petition on a timely basis, unless the stockholder receives notice that such a petition has been filed by HLS or another stockholder.

If a petition for appraisal is timely filed, the court will determine which stockholders are entitled to appraisal rights and thereafter will determine the fair value of the shares of Chardan common stock held by those stockholders. The court’s valuation will exclude any element of value arising from the accomplishment or expectation of the redomestication merger (and the concurrent acquisition of Gifted Time Holdings), but may include a fair rate of

interest, if any, to be paid on the amount determined to be fair value. In determining fair value, the court shall take into account all relevant factors. The court may determine the fair value to be more than, less than or equal to the consideration that a stockholder would otherwise be entitled to receive either in the redomestication merger or pursuant to the conversion rights (which entitle the holder to a pro rata portion of the funds in the Chardan trust account). If a petition for appraisal is not timely filed, then the right to an appraisal shall cease. The court will determine the costs of the appraisal proceeding and the court will assess those costs against the parties as the court determines to be equitable under the circumstances. Upon application of a stockholder, the court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding (including, without limitation, reasonable attorneys' fees and the fees and expenses of experts) to be charged pro rata against the value of all shares entitled to appraisal. Because the reimbursement of these costs is discretionary and because the appraised value of the shares may be low (given that the court is entitled to exclude any elements of value arising from the accomplishment or expectation of the redomestication merger and the concurrent acquisition of Gifted Time Holdings), stockholders demanding appraisal rights may not receive amounts for their shares that would be sufficient to cover their costs of the appraisal process.

After the effective time of the redomestication merger, no stockholder who has exercised appraisal rights shall have any rights of a Chardan stockholder with respect to such holder's shares for any purpose, except to receive payment to which Chardan stockholders of record as of a date prior to the effective time are entitled, if any. If a stockholder entitled to appraisal rights delivers to HLS a written withdrawal of the demand for an appraisal within 60 days after the effective time of the redomestication merger (or thereafter with the written approval of HLS) or if no petition for appraisal is filed within 120 days after the effective time, then the right of such stockholder to an appraisal will cease and such stockholder will be entitled to receive only the shares of common stock of HLS as provided in the redomestication merger.

Differences of Stockholder Rights

Upon the completion of the reincorporation, the memorandum and articles of association of HLS will become the governing documents of the surviving corporation. Although the corporate statutes of Delaware and the British Virgin Islands are similar, certain differences exist. The most significant differences, in the judgment of the management of Chardan are summarized below. Stockholders should refer to the annexes of the memorandum and articles of association and to the Delaware corporate law and corporate law of the British Virgin Islands, including the Business Companies Act (“BCA”) to understand how these laws apply to Chardan and HLS and may affect you. Neither British Virgin Islands law nor the memorandum and articles of association of HLS impose any limitations on the right of nonresident or foreign owners to hold or vote securities. Under the British Virgin Islands law, holders of a company’s stock are referred to as members, as opposed to stockholders, which reference is carried through in the table.

Provision	Chardan	HLS
Number of Authorized Shares	21 million shares of which 20 million are shares of common stock, \$.0001 par value per share and 1 million are shares of preferred stock, par value \$.0001 per share	101 million shares of which 100 million are ordinary shares; and 1 million are preference shares, each with a par value of \$.001 per share
Par Value	Stated in United States dollars. Changes in capital generally require stockholder approval	No par value Changes in capital may be made upon resolution of members or directors.
Preferred (Preference) Shares	Directors may fix the designations, powers, preferences, rights, qualifications, limitations and restrictions by resolution.	Same as Chardan, but subject to the memorandum.
Registered Shares	Shares of capital stock of Chardan to be registered shares.	Same as Chardan
Purpose of Corporation	To engage in any lawful act not prohibited by law.	Same as Chardan subject to the prohibition of conducting certain business activities in the BVI (<i>i.e.</i> , banking, insurance and local BVI businesses).
Amendment of Certificate of Incorporation	Requires stockholder vote and, except in limited circumstances, by the board of directors.	Requires vote of the members, being a person that holds shares, or as permitted by the BCA by the board of directors and articles.
Registered Office	9 East Loockerman Street Kent County Dover, Delaware	P.O. Box 173 Kingston Chambers Road Town, Tortola, British Virgin Islands
Transfer Agent	Continental Stock Transfer & Trust Company	Same as Chardan
Voting Rights		Same as Chardan

Common stock: one share, one vote on all matters before the holders of the common stock.

Other classes of equity may have voting rights as assigned to them by the board of directors or as approved by stockholders.

Directors elected by plurality, all other matters either by majority of issued and outstanding or majority of those present and entitled to vote as specified by law.

Directors elected by plurality as provided in memorandum and articles; all other matters by a majority of those shares present and entitled to vote.

Provision	Chardan	HLS
Redemption of Equity	Shares may be repurchased or otherwise acquired, provided the capital of the company will not be impaired by the acquisition. Company may hold or sell treasury shares.	Same as Chardan
Stockholder/Member consent	Permitted as required for a vote at a meeting	Same as Chardan
Notice Requirements for Stockholder/Member Nominations and Other Proposals	In general, to bring a matter before an annual meeting or to nominate a candidate for director, a stockholder must give notice of the proposed matter or nomination not less than 60 days and not more than 90 days prior to public disclosure of the date of annual meeting. In the event that less than 70 days notice or prior public disclosure of the date of the meeting is given or made to stockholder, to be timely, the notice must be received by the company no later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or public disclosure was made, whichever first occurs.	To bring a matter before an annual meeting or to nominate a candidate for director, a member must give notice to the company of not less than 30 days nor more than 60 days. If the member is making a proposal on a matter or nominating a candidate for director and there is less than 40 days notice or prior public disclosure of the date is given or made to members, to be timely, must be received no later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made.
Meetings of Stockholders/Members - Presence	In person or by proxy or other appropriate electronic means.	In person or by proxy or by any teleconference means where persons can hear one another.
Meeting of Stockholder/Member - Notice	Not less than 10 days or more than 60 days.	Not less than seven days; no maximum limit.
Meeting of Stockholders/Members - Call of Meeting	Regular and annual meetings shall be called by the directors. Special meetings may be called only by majority of board of directors, chief executive officer or by a majority of the issued and outstanding capital stock entitled to vote.	Meetings may be called by the directors or by members holding 30 percent of the outstanding votes. The articles require an annual meeting of the members for the election of directors to be called by the directors. Meetings on short notice may be called upon waiver or presence of all the members holding shares entitled to vote or 90% of the total number of shares entitled to vote

agree to short notice.

Meeting of Stockholders Within or without Delaware
/Members- Place

Within or outside the BVI as the
directors consider necessary or
desirable.

Provision	Chardan	HLS
Meeting of Stockholders/Members - Quorum	Majority of the capital stock issued and outstanding and entitled to vote at meeting. Meeting may be adjourned for up to 30 days without additional notice to stockholders.	One-half of the votes of the shares of each class or series entitled to vote. Adjournment for such time as directors determine.
Meeting of Stockholders/Members - Record Date	As fixed by the directors, no more than 60 days and no less than 10 days before the meeting. If not fixed, the day before notice of meeting is given.	As fixed by the directors
Directors - Election	By the stockholders as entitled by their terms, including the holders of common stock.	By the members as entitled by their terms, including the holders of common stock
Directors - Term	Staggered board of three classes; for terms of three years	Annual term
Directors - Removal	By the stockholders for cause.	By resolution of the members for cause or without cause on a vote of the members representing 66-2/3 of the shares entitled to vote or the directors for any reason on a resolution signed by all the other directors absent from meetings for six months without leave of the board, death or incapacity.
Directors - Vacancy	May be filled by majority of remaining directors (unless they are the result of the action of stockholders) and newly created vacancies may be filled by majority of remaining directors.	May be filled by members or the board of directors.
Directors - Number	Unless established by certificate of incorporation, as determined by board of directors, but not less than one.	Same as Chardan.
Directors - Quorum and Vote Requirements	A majority of the entire board. The affirmative vote of a majority of directors present at a meeting at which there is a quorum constitutes action by the board of directors.	One-half of the total number of directors, present in person or by alternate, except if there are only two or less directors then a quorum will be all the directors.
Directors - Managing Director	Not applicable	Provision for the board to select one or more directors to be managing directors, provide for special remuneration and assign

such powers as the board determines so long as it is not a power that requires board approval.

Directors - Powers	All powers to govern the corporation not reserved to the stockholders.	Same as Chardan
Directors - Committees	Directors may establish one or more committees with the authority that the board determines.	Same as Chardan

Provision	Chardan	HLS
Directors - Consent Action	Directors may take action by written consent of all directors, in addition to action by meeting.	By written consent in same manner as if at a meeting in persons, by directors or by alternate.
Director - Alternates	Not permitted	Directors may, by written instrument, appoint an alternate who need not be a director, who may attend meetings in the absence of the director and vote and consent in the place of the directors.
Directors - Appoint Officers	Directors appoint the officers of the corporation, subject to the by-laws, with such powers as they determine.	Same as Chardan, subject to the articles of association
Director - Limitation of Liability	Directors liability is limited, except for (i) breach of loyalty, (ii) act not in good faith or which involves international misconduct or a knowing violation of law, (iii) willful violation of law in respect of payment of dividend or redeeming shares, or (iv) actions in which director receives improper benefit.	Duty to act honestly and in good faith with a view to the best interests of the company and exercise care, diligence and skill of a reasonably prudent person acting in comparable circumstances. No provisions in the memorandum, articles or agreement may relieve a director, officer, or agent from the duty to act in accordance with the memorandum or articles or from personal liability arising from the management of the business or affairs of the company.
Director - Indemnification Insurance	Company may purchase insurance in relation to any person who is or was a director or officer of the company.	Same as Chardan, extends to a liquidator of the company.
Amendments to Organizational Documents	Amendments must be approved by the board of directors and by a majority of the outstanding stock entitled to vote on the amendment, and if applicable, by a majority of the outstanding stock of each class or series entitled to vote on the amendment as a class or series. By-laws may be amended by the stockholders entitled to vote at any meeting or, if so provided by the certificate of incorporation, by the board of directors.	Amendments to the memorandum and articles may be made by resolution of the members or by the directors.
Sale of Assets		

The sale of all or substantially all the assets of the company requires stockholder approval.

Subject to the Memorandum and Articles of Association, the sale of more than 50% of the assets of the company requires member approval.

Dissenters Rights

Provision is made under Delaware corporate law to dissent and obtain fair value of shares in connection with certain corporate actions that require stockholder approval or consent.

Provision is made under the BCA to dissent and obtain fair value of shares in connection with certain corporate actions that require member approval or consent.

Indemnification Of Officers And Directors

As indicated in the comparison of charter provisions, a director, officer or agent of a company formed under the laws of the British Virgin Islands is obligated to act honestly and in good faith and exercise care, diligence and skill of a reasonably prudent person acting in comparable circumstances. The Memorandum and Articles of HLS do not relieve directors, officers or agents from personal liability arising from the management of the business of the company. Notwithstanding the foregoing, Section 132 of the Business Companies Act of the British Virgin Islands may indemnify directors, officers and agents against all expenses, including legal fees and judgments, fines and settlements, in respect of actions related to their employment. The stock purchase agreement provides indemnification in respect of the representations, warranties and covenants of the parties, some of which may relate to the securities laws of the United States. There are no agreements that relieve directors, officer or agents from personal liability. HLS is permitted and intends to obtain director and officer insurance.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, HLS and Chardan have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy, as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable.

Defenses Against Hostile Takeovers

While the following discussion summarizes the reasons for, and the operation and effects of, the principal provisions of HLS's Memorandum and Articles of Association that management has identified as potentially having an anti-takeover effect, it is not intended to be a complete description of all potential anti-takeover effects, and it is qualified in its entirety by reference to the full texts of HLS's Memorandum and Articles of Association.

In general, the anti-takeover provisions of HLS's Memorandum and Articles of Association are designed to minimize susceptibility to sudden acquisitions of control that have not been negotiated with and approved by HLS's board of directors. As a result, these provisions may tend to make it more difficult to remove the incumbent members of the board of directors. The provisions would not prohibit an acquisition of control of HLS or a tender offer for all of HLS's capital stock. The provisions are designed to discourage any tender offer or other attempt to gain control of HLS in a transaction that is not approved by the board of directors, by making it more difficult for a person or group to obtain control of HLS in a short time and then impose its will on the remaining stockholders. However, to the extent there provisions successfully discourage the acquisition of control of HLS or tender offers for all or part of HLS's capital stock without approval of the board of directors, they may have the effect of preventing an acquisition or tender offer which might be viewed by stockholders to be in their best interests.

Tender offers or other non-open market acquisitions of stock will generally be made at prices above the prevailing market price of HLS's stock. In addition, acquisitions of stock by persons attempting to acquire control through market purchases may cause the market price of the stock to reach levels that are higher than would otherwise be the case. Anti-takeover provisions may discourage such purchases, particularly those of less than all of HLS's stock, and may thereby deprive stockholders of an opportunity to sell their stock at a temporarily higher price. These provisions may therefore decrease the likelihood that a tender offer will be made, and, if made, will be successful. As a result, the provisions may adversely affect those stockholders who would desire to participate in a tender offer. These provisions may also serve to insulate incumbent management from change and to discourage not only sudden or hostile takeover attempts, but also any attempts to acquire control that are not approved by the board of directors, whether or not stockholders deem such transactions to be in their best interest.

Stockholder Meetings. British Virgin Island law provides that stockholder meetings shall be convened by the board of directors at any time or upon the written request of stockholders holding more than 30% of the votes of the outstanding voting shares of the company. HLS's Articles of Association provide that annual stockholder meetings for the election of directors may be called only by the directors.

Number of Directors and Filling Vacancies on the Board of Directors. British Virgin Island law requires that the board of directors of a company consist of one or more members and that the number of directors shall be set by the corporation's Articles of Association, with a minimum of one director. HLS's Articles of Association provide that the number of directors shall be not less than one, subject to any subsequent amendment to change the number of directors. The power to determine the number of directors is vested in the board of directors. The power to fill vacancies, whether occurring by reason of an increase in the number of directors or by resignation, is vested primarily in the board of directors. Directors may be removed by the members only for cause or without cause on a vote of the members representing 66-2/3 of the shares entitled to vote.

Election of Directors. Under British Virgin Island law, there is no cumulative voting by stockholders for the election of the directors. The absence of cumulative voting rights effectively means that the holders of a majority of the stock

voted at a stockholders meeting may, if they so choose, elect all directors of HLS, thus precluding a small group of stockholders from controlling the election of one or more representatives to the board of directors.

Advance Notice Requirements for Nomination of Directors and Presentation of New Business at Meetings of Stockholders; Action by Written Consent. The HLS Articles of Association will provide for advance notice requirements for stockholder proposals and nominations for director. Generally, to be timely, notice must be delivered to the secretary of HLS at its principal executive offices not fewer than 30 days nor more than 60 days prior to the first anniversary date of the annual meeting for the preceding year. Special meetings may be called by HLS's board of directors or by stockholders comprising 50% of the combined voting power of the holders of the then outstanding shares entitled to vote. These provisions make it more procedurally difficult for a stockholder to place a proposal or nomination on the meeting agenda or to take action without a meeting, and therefore may reduce the likelihood that a stockholder will seek to take independent action to replace directors or seek a stockholder vote with respect to other matters that are not supported by management.

Rights of Minority Shareholders

Under the law of the British Virgin Islands, there is little statutory law for the protection of minority shareholders. The principal protection under statutory law is that shareholders may bring an action to enforce the constituent documents of the corporation, the Articles and the Memorandum of Association. Shareholders are entitled to have the affairs of the company conducted in accordance with the general law and the articles and memorandum. The company is obliged to hold an annual general meeting and provide for the election of directors. Companies are obligated to appoint an independent auditor and shareholders are entitled to receive the audited financial statements of the company.

There are common law rights for the protection of shareholders that may be invoked, largely dependent on English company law, since the common law of the British Virgin Islands for business companies is limited. Under the general rule pursuant to English company law known as the rule in *Foss v. Harbottle*, a court will generally refuse to interfere with the management of a company at the insistence of a minority of its shareholders who express dissatisfaction with the conduct of the company's affairs by the majority or the board of directors. However, every shareholder is entitled to have the affairs of the company conducted properly according to law and the constituent documents of the corporation. As such, if those who control the company have persistently disregarded the requirements of company law or the provisions of the company's memorandum of association or articles, then the courts will grant relief. Generally, the areas in which the courts will intervene are the following: (i) an act complained of which is outside the scope of the authorized business or is illegal or not capable of ratification by the majority, (ii) acts that constitute fraud on the minority where the wrongdoers control the company, (iii) acts that infringe on the personal rights of the shareholders, such as the right to vote, and (iv) where the company has not complied with provisions requiring approval of a special or extraordinary majority of shareholders.

Under the law of Delaware, the rights of minority shareholders are similar to that which will be applicable to the shareholders of HLS. The principal difference, as discussed elsewhere will be the methodology and the forum for bringing such an action. It is also generally the case that the Delaware courts can exercise a wide latitude in interpretation and wide discretion in fashioning remedies as they think fits the circumstances for the regulation of the company. Under English precepts of the law of minority shareholders, there is generally a more restricted approach to the enforcement of the rights through the interpretation of the law, articles and memorandum.

Federal Income Tax Consequences of the Reincorporation

The redomestication merger has been structured to qualify as a reorganization under section 368(a) of the Code for federal income tax purposes. For United States federal income tax purposes, no gain or loss will be recognized by the stockholders of Chardan who receive HLS common stock for their Chardan common stock in connection with the redomestication merger. The aggregate tax basis of the HLS common stock received by a Chardan stockholder in connection with the redomestication merger will be the same as the aggregate tax basis of the Chardan common stock surrendered in exchange for HLS common stock. A stockholder who holds Chardan common stock will include in his

holding period for the HLS common stock that he receives his holding period for the Chardan common stock. Chardan, however, 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. There is no reciprocal tax treaty between the British Virgin Islands and the United States regarding withholding.

State, local or foreign income tax consequences to stockholders may vary from the federal income tax consequences described above, and *stockholders are urged to consult their own tax advisor as to the consequences to them of the reincorporation under all applicable tax laws.*

Transfer of HLS Securities Upon Death of Holder

Because HLS is a BVI company, the transfer of the securities of HLS, including the common stock and warrants, for estate administration purposes will be governed by BVI law. This may require that the estate of a decedent security holder of HLS seek to probate or transfer under letters of administration for the estate issued by a court in the BVI. HLS has attempted to modify this requirement by inserting in its Articles of Association a provision that permits the board of directors to decide whether or not to permit decedent transfers based on estate documentation from jurisdictions other than the BVI, more in accordance with United States practice, without any action having to be taken in the BVI. The board of directors intends to follow this procedure. There is no assurance that this will result in an enforceable transfer. The board of directors will be fully indemnified for its actions in this regard pursuant to the Articles of Association.

CHARDAN 2006 EQUITY PLAN

Background

The Chardan board of directors has approved the “2006 Stock Plan,” subject to stockholder approval. The plan reserves 3,000,000 shares of Chardan common stock for issuance in accordance with the plan’s terms. The purpose of the stock option plan is to enable Chardan to offer its employees, officers, directors and consultants whose past, present and/or potential contributions to Chardan have been, are or will be important to the success of Chardan, an opportunity to acquire a proprietary interest in Chardan. The various types of incentive 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.

There are approximately 1,000 persons who will be eligible to be granted awards, including directors, officers and employees of the HollySys Operating Companies, Gifted Time Holdings and HLS. No allocations of shares that may be subject to awards have been made in respect of the executive officers or any other group. All awards will be subject to the recommendations of management and the compensation committee and approval by the board of directors or the stock option committee.

A summary of the principal features of the stock option plan is provided below, but is qualified in its entirety by reference to the full text of the plan which is attached to this proxy statement/prospectus as an annex.

Shares Available

The stock plan reserves 3,000,000 shares of common stock for awards. If Chardan’s stockholders approve this proposal, the total number of shares of common stock available for issuance under the stock plan will be subject to the adjustments described below.

Administration

The stock plan is administered by our compensation committee. Under the stock plan, the compensation committee has full authority, subject to the provisions of the plan, to award any of the following, either alone or in tandem with each other:

- stock options;
- stock appreciation rights;
- restricted stock;

- restricted stock units;
- performance units and shares
- deferred compensation awards; and
- other stock-based awards.

Subject to the provisions of the stock plan, the compensation committee determines, among other things, the persons to whom from time to time awards may be granted, the specific type of award to be granted, the number of shares subject to each award, share prices, any restrictions or limitations on the awards, and any vesting, exchange, deferral, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions related to the awards. The interpretation and construction by the compensation committee of any provisions of, and the determination by the compensation committee of any questions arising under, the plan or any rule or regulation established by the compensation committee pursuant to the plan is final and binding on all persons interested in the plan.

Stock subject to the plan

The plan authorizes a total of 3,000,000 shares of common stock to be granted as awards under the plan. In order to prevent the dilution or enlargement of the rights of holders under the plan, our compensation committee may determine whether or not to adjust the terms of the awards or the number of shares reserved for issuance under the plan in the event of any stock split, reverse stock split, stock dividend payable on our shares of common stock, combination or exchange of shares, or other extraordinary event occurring after the grant of an award. Shares of our common stock that are awarded under the plan may be either treasury shares or authorized but unissued shares. Treasury shares are those purchased or acquired by us from a stockholder or in the public market. If any award granted under the plan is forfeited or terminated, the shares of common stock reserved for issuance pursuant to the award will be made available for future award grants under the plan.

Eligibility

Subject to the provisions of the plan, awards may be granted to key employees, officers, directors and consultants who are deemed to have rendered or are able to render significant services to us or our subsidiaries and who are deemed to have contributed or to have the potential to contribute to our success. Incentive stock options may only be awarded to individuals who are our employees at the time of grant. Notwithstanding the foregoing, an award may be granted to an individual in connection with his or her hiring or retention, or at any time on or after the date he or she reaches an agreement with us, either oral or in writing, with respect to his or her hiring, even though it may be prior to the date he or she first performs services for us or our subsidiaries. However, no portion of any award of this nature can vest prior to the date that the individual first performs the services he or she was hired or retained to perform.

Types of awards

Options. Under the plan, our compensation committee may award to participants stock options that:

- are intended to qualify as “incentive stock options” within the meaning of Section 422 of the Code; or
- are not intended to be so qualified.

Incentive stock options may only be awarded to our employees and those of our subsidiaries. To the extent that any stock option intended to qualify as an incentive stock option does not so qualify it will constitute a non-incentive stock option.

Our compensation committee will fix the term of each stock option. However, an incentive stock option may be granted only within the ten-year period commencing from the effective date of the plan and may only be exercised within ten years from the date of grant, or five years from the date of grant in the case of a participant who at the time the stock option is granted owns more than 10% of the total combined voting power of all of our classes of voting securities.

The exercise price of stock options granted under the plan will be determined by our compensation committee at the time of the grant, but in no event will the price be less than the fair market value of the underlying common stock on the last trading day prior to the date the stock option is granted. However, the exercise price of an incentive stock option granted to a 10% stockholder will not be less than 110% of the fair market value of the shares on the last trading day prior to the date the stock option is granted. The number of shares covered by incentive stock options which may first become exercisable by a participant in any calendar year cannot have an aggregate fair market value in excess of \$100,000, measured at the date of grant.

The compensation committee will determine the terms and conditions of stock options and when they will become exercisable. Any requirement that options be exercised in installments may be waived in whole or in part by the compensation committee.

Payment of the exercise price may be made in cash, in shares of our common stock owned by the participant, in a combination of the two, or otherwise, as reflected in the applicable award agreement. Additionally, the compensation committee may permit a participant to elect to pay the exercise price by irrevocably authorizing a third party to sell shares of common stock, or a sufficient portion of the shares, acquired upon exercise of the stock option and pay to us a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from the exercise. The committee may also approve the use of any other legal consideration to exercise a stock option. A participant has no rights as a stockholder with r