

Delta Technology Holdings Ltd
Form 20-F
November 15, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark one)

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

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

For the fiscal year ended June 30, 2016

OR

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

OR

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

Date of event requiring this shell company report: _____

Commission File Number: 001-35755

Delta Technology Holdings Limited

(Exact name of the Registrant as specified in its charter)

British Virgin Islands

(Jurisdiction of incorporation or organization)

16 Kaifa Avenue

Danyang, Jiangsu, China 212300

(Address of principal executive offices)

Xin Chao

Chief Executives Officer

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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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

Title of each class	Name of exchange on which registered
Ordinary Shares	NASDAQ Capital Market
Redeemable Ordinary Share Purchase Warrants	NASDAQ Capital Market

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

Not Applicable.

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

Not Applicable.

As of November 11, 2016, the issuer had 9,618,852 ordinary shares outstanding (including 1,000,000 ordinary shares subject to certain net income performance targets).

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

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☐ Large Accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer

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

☒ US GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other

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

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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INTRODUCTORY NOTES

Except as otherwise indicated by the context and for the purposes of this report only, references in this report to:

the “Company,” “we,” “us,” “our company” and “our” refer to Delta Technology Holdings Limited, formerly CIS Acquisition Ltd. (together with its subsidiaries and affiliated entities, except the context indicates otherwise);

· “Elite” are to Elite Ride Limited, which is our wholly owned subsidiary and a company organized in the BVI;

· “Delta” are to Delta Advanced Materials Limited, a Hong Kong company, as well as Delta’s wholly-owned operating subsidiaries in the PRC: Jiangsu Yangtze Delta Fine Chemical Co., Ltd (“Jiangsu Delta”) and Binhai Deda Chemical Co., Ltd (“Binhai Deda”).

· “Acquisition” are to our acquisition of Elite on September 19, 2014, pursuant to a share exchange transaction among us, Elite, Delta and shareholders of Elite;

· “BVI” are to the British Virgin Islands;

· “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China;

· “PRC” and “China” are to the People’s Republic of China;

· “SEC” are to the Securities and Exchange Commission;

· “Exchange Act” are to the Securities Exchange Act of 1934, as amended;

· “Securities Act” are to the Securities Act of 1933, as amended;

· “Renminbi” and “RMB” are to the legal currency of China;

· “Hong Kong dollars,” “HKD” and “HK\$” are to the legal currency of Hong Kong; and

·“U.S. dollars,” “dollars” and “\$” are to the legal currency of the United States.

Our financial statements are expressed in U.S. dollars, which is our reporting currency. Certain of our financial data in this annual report on Form 20-F is translated into U.S. dollars solely for the reader's convenience. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report on Form 20-F were made at a rate of RMB6.6439 to US\$1.00, the average exchange rate for the fiscal year ended June 30, 2016 as set forth at www.usforex.com. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, at the rate stated above, or at all.

GLOSSARY OF TECHNICAL TERMS

To facilitate a better understanding of our business, the following glossary provides a description of some technical terms and abbreviations used in this annual report. The terms and their assigned meanings may not correspond to standard industry or common meanings or usages of these terms, as the case may be.

Benzene	An organic chemical compound with molecular formula C_6H_6 . Its molecule is composed of 6 carbon atoms joined in a ring, with 1 hydrogen atom attached to each carbon atom.
Chlorobenzonitrile	A chemical element with molecular formula C_7H_4ClN , commonly used in producing medicine, pesticide, dye intermediate.
Chlorobenzyl chloride	A chemical element with molecular formula $C_7H_6Cl_2$ which is commonly used as an intermediate for manufacturing organic compounds used in the end applications of pharmaceuticals, pesticides and dyes.
Chlorotoluene	A group of three isomeric chemical compounds with molecular formula C_7H_7Cl . The group of compounds (ortho-chlorotoluene, meta-chlorotoluene, and para-chlorotoluene) consist of a disubstituted benzene ring with one chlorine atom and one methyl group.
Chlorine	A chemical element with symbol Cl and atomic number 17. Chlorine is in the halogen group and is the second lightest halogen after fluorine. The element is a yellow-green gas under standard conditions, where it forms diatomic molecules.
Fumaric acid	A chemical compound with molecular formula $C_4H_4O_4$. It is a white crystalline compound which can be used as food additive and in the manufacture of polyester resins and polyhydric alcohols and as a mordant for dyes.
Hydrolyzed polymaleic acid	A brownish-yellow transparent liquid which is used as a scale-retarding and dispersing agent for water-cooling systems, oil field water-injection and low-pressure boilers and also as a rinsing agent for textiles.

Maleic Anhydride or MA

An organic compound with the formula $C_2H_2(CO)_2O$. It is the acid anhydride of maleic acid and in its pure state it is a colorless or white solid with an acrid odor. It is mainly used in unsaturated resin, water treatment agents such as manufacture of paint, polyester resins, pesticides, and fumaric acid.

O-Chloro benzonitrile

A chemical compound with molecular formula C_7H_4ClN . It is used in dye intermediate, drug and fine chemicals.

O-chlorobenzaldehyde	A chemical compound with molecular formula C_7H_5ClO . It is a colorless or light yellow oily liquid mainly used as pharmaceutical material to produce o-chloro benzoyl, o-chloro benzoylchloride. It is also widely used to produce highly-effective acaricide in pesticide industry and pharmaceutical industry.
O-chlorobenzoic acid	A chemical compound with molecular formula $C_7H_5ClO_2$. It is a white crystalline powder which can be used as preservative for glues and paints.
O-chlorobenzyl chloride	A chemical element with molecular formula $C_7H_6Cl_2$, commonly used in the production of o-benzyl, o-dichlorobenzene.
OCT	O-chlorotoluene, a colorless transparent liquid with a molecular formula of C_7H_7Cl . It is used as a solvent in making chemicals, pharmaceuticals, synthetic rubber and dyes, and as an insecticide and bactericide.
Phthalic anhydride	An organic compound with molecular formula $C_6H_4(CO)_2O$. This colorless solid is an important industrial chemical, especially for the large-scale production of plasticizers for plastics.
PCT	P-chlorotoluene, a clear liquid with molecular formula $CH_3C_6H_4Cl$. It is commonly used as a solvent and as an intermediate for organic synthesis (especially for dyes).
Styrene	An organic compound with a chemical formula of C_8H_8 . It is a derivative of benzene and takes the form of a colorless oily liquid. It is used in the production of rubber, plastic, insulation, fiberglass, pipes and automobile.
Toluene	A clear, colorless liquid with a molecular formula of C_7H_8 . It is widely used as an industrial feedstock and as a solvent.
UPR	Unsaturated polyester resin, a family of condensation polymers formed by the reaction of organic acids and alcohols in the presence of catalysts.
2,4DCT	2,4-Dichloro toluene, a clear liquid with molecular formula $C_7H_6Cl_2$. It can be used as high boiling point solvent and as intermediate for the synthesis of various organic chemicals of chlorinated-nitrated pesticides and medicinal products.
3,4 DCT	3,4-Dichloro toluene, a clear liquid with molecular formula $C_7H_6Cl_2$. It can be used as high boiling point solvent and as intermediate for the synthesis of various organic chemicals of chlorinated-nitrated pesticides and medicinal products.
2,4-Dichloro-chloride	A clear liquid with molecular formula $C_7H_3Cl_3O$. It is used as an intermediate for the synthesis of pharmaceuticals, agrochemicals, rubber chemicals and dyes.
2,4-Dichlorobenzaldehyde	A pure, colorless, or slightly yellow crystalline with molecular formula $C_7H_4Cl_2O$. It is primarily used for acid blue dye and pesticide diluted Hexaconazole.
2,4-Dichlorobenzonitrile	A white powder with molecular formula $C_7H_3Cl_2N$. It is mainly used as a herbicide.

3,4-Dichlorobenzonitrile A white and crystalline powder with molecular formula $C_7H_3Cl_2N$. It is mainly used as an intermediate in the manufacture of highly effective herbicide and bactericide.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. We use words such as “believe,” “expect,” “anticipate,” “project,” “target,” “plan,” “optimistic,” “intend,” “aim,” “will” or similar expressions which are intended to identify forward-looking statements. Such statements include, among others, those concerning market and industry segment growth and demand and acceptance of new and existing products; any projections of sales, earnings, revenue, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations; and any statements regarding future economic conditions or performance, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, as well as assumptions, which, if they were to ever materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements. Potential risks and uncertainties include, among other things, the possibility that we may not be able to maintain or increase our net revenues and profits due to our failure to anticipate market demand and develop new products, our failure to execute our business expansion plan, changes in domestic and foreign laws, regulations and taxes, changes in economic conditions, uncertainties related to China’s legal system and economic, political and social events in China, a general economic downturn, a downturn in the securities markets, and other risks and uncertainties which are generally set forth under Item 3 “Key information—D. Risk Factors” and elsewhere in this report.

Readers are urged to carefully review and consider the various disclosures made by us in this report and our other filings with the SEC. These reports attempt to advise interested parties of the risks and factors that may affect our business, financial condition and results of operations and prospects. The forward-looking statements made in this report speak only as of the date hereof and we disclaim any obligation, except as required by law, to provide updates, revisions or amendments to any forward-looking statements to reflect changes in our expectations or future events.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

The selected consolidated financial data present the results for the five fiscal years ended and as of June 30, 2016, 2015, 2014, 2013 and 2012. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data below should be read in conjunction with our consolidated financial statements and notes thereto, “Item 5. Operating and Financial Review and Prospects” below, and the other information contained in this Form 20-F.

	For the Years Ended June 30,				
	2016	2015	2014	2013	2012
Statement of Income Data					
Revenue	\$53,418,112	\$202,009,160	\$175,327,717	\$124,218,213	\$95,627,051
Cost of Sales	\$(48,713,456)	\$(182,692,715)	\$(157,904,729)	\$(99,733,216)	\$(69,686,610)
Gross Profit	\$4,704,656	\$19,316,445	\$17,422,988	\$24,484,997	\$25,940,441
(Loss) / Income from operations	\$(10,432,948)	\$12,258,404	\$11,634,940	\$17,842,614	\$19,088,375
Net (Loss) / Income	\$(7,558,230)	\$5,135,757	\$6,828,308	\$11,705,736	\$10,471,574
Comprehensive (Loss) / income	\$(4,635,699)	\$5,372,660	\$7,144,747	\$13,315,616	\$11,803,575
(Loss) / Earnings per share - basic	(1.46)	1.44	1.53	0.29	0.26
(Loss) / Earnings per share – diluted	(1.46)	1.44	1.53	0.20	0.22
Weighted average shares - basic	9,323,108	6,462,577	4,560,000	40,000,000	40,000,000
Weighted average shares – diluted	9,323,108	6,462,577	4,560,000	58,191,973	58,191,973
Balance Sheet Data					
Working Capital (deficiency)	\$107,379,902	\$(10,419,909)	\$(27,362,427)	\$(14,773,509)	\$16,818,269
Total assets	\$176,144,150	\$225,724,786	\$206,531,300	\$167,039,000	\$143,644,914
Total liabilities	\$132,642,058	\$167,316,820	\$151,071,926	\$118,724,373	\$108,645,903
Total equity	\$45,502,091	\$58,407,966	\$55,459,374	\$48,314,627	\$34,999,011

Exchange Rate Information

We conduct our business in China and substantially all of our revenues are denominated in Renminbi. However, periodic reports will be expressed in U.S. dollars using the then current exchange rates. This annual report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. No representation is made that the Renminbi amounts referred to in this annual report could have been or could be converted into U.S. dollars at any particular rate or at all. On November 11, 2016, the daily exchange rate reported at www.usforex.com was RMB6.8127 to US\$1.00.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated.

	Renminbi per U.S. Dollar Noon Buying Rate			
	Average (1)	High	Low	Period- End
Year ended June 30, 2016	6.4399	6.6516	6.2010	6.6368
Year ended June 30, 2015	6.1375	6.2080	6.0933	6.1088
Year ended June 30, 2014	6.1467	6.1922	6.0901	6.1577
Year ended June 30, 2013	6.2814	6.3872	6.1583	6.1882
Year ended June 30, 2012	6.3630	6.4773	6.2936	6.3197
May 2016	6.5264	6.5833	6.4741	6.5833
June 2016	6.5876	6.5616	6.5620	6.6368
July 2016	6.6769	6.7080	6.6370	6.6374
August 2016	6.6492	6.6775	6.6223	6.6775
September 2016	6.6768	6.7304	6.6623	6.6676
October 2016	6.7249	6.7983	6.6331	6.7744

Source: <http://www.usforex.com/forex-tools/historical-rate-tools/>

(1) Annual averages are calculated from month-end rates. Monthly and interim period averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the following risk factors in addition to the other information included or incorporated by reference in this report, including matters addressed in the section entitled “Forward-Looking Statements”. We caution you not to place undue reliance on the forward-looking statements contained in this report, which speak only as of the date hereof.

The risks and uncertainties described below include all of the material risks applicable to us; however they are not the only risks and uncertainties that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

Risks related to Our Business

We are subject to the PRC's environmental protection measures.

Our business activities produce certain pollutants such as waste water and waste gas, during the production process. The PRC has in recent years tightened its environmental protection measures to be more in line with steps taken by developed countries.

Under the PRC Environmental Protection Law, any enterprise which discharges pollutants is required to be registered with the relevant PRC governmental departments and to obtain a pollutant discharge permit. Any such enterprise is also required to have waste water, waste gas, solid waste and noise pollution treatment facilities that meet the relevant environmental standards and to have the pollutants treated before discharge. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts.

On October 20, 2012, Jiangsu Delta obtained the Pollutant Discharge Permit of Zhenjiang issued by the Environment Protection Agency of Dantu District, Zhenjiang City for discharge of the key production wastes, including inter alia, ammonia, nitrogen, total phosphorus, petroleum waste, benzene, toluene, dimethylbenzene, chlorobenzene, soot, hydrochloric acid, hydrochloric acid, maleic anhydride and sulfur dioxide. Such discharges must be made in compliance with national environmental regulation. The Pollutant Discharge Permit is valid from May, 2015 to May, 2018, after which it will be due for renewal.

Additionally, our facilities may be subject to periodic and annual environmental inspections. Penalties may be imposed for the discharge of pollutants that fail to meet relevant environmental standards. The relevant governmental authorities may refuse to issue or renew a pollutant discharge permit if an enterprise fails environmental inspections and in cases of severe violation of environmental standards, are also empowered to shut down any enterprise that causes substantial environmental problems.

There is no assurance that the current PRC environmental protection laws and regulations will not be amended in the future. In June 2012, as the local environmental protection criteria were amended where more stringent standards were introduced by the relevant local authorities, Jiangsu Delta's production activities were temporarily suspended for approximately 45 days to enhance its waste water treatment facilities in order to meet the revised standards. In July 2012, Jiangsu Delta was certified to have satisfied the new criteria and was allowed to re-commence its operations. If more stringent environmental protection laws and regulations are introduced in the future, Jiangsu Delta may again need to cease operations to adapt to any proposed new standards, which we may cause us to utilize significant financial and/or other resources to ensure compliance, which would result in an increase in our operating costs and have an adverse effect on our profitability and prospects.

Furthermore, if we are unable to comply with such stringent environmental protection standards, penalties (including fines and/or shutdown of processing facilities) may be imposed on us, which in turn may adversely affect our financial performance.

We depend on our key personnel for continued success.

We believe our success to date can largely be attributed to the contributions, expertise and experience of our key management team, which is headed by our Chairman and Chief Executive Officer, Xin Chao. He is responsible for identifying business opportunities and implementing overall business strategies to achieve our corporate goals.

Our key management team also includes Xin Chao, Changguang Wu, Jianmin Xia, Ming Chao and Hongming Dong. The continued success of our business is therefore dependent, to a large extent, on our ability to retain the services of our directors and executive officers. Each of Chao Xin, Wu Changguang and Ming Chao has more than 15 years of experience in the fine chemical and/or related industries. The loss of the services of our key personnel without a suitable and timely replacement, or the inability to attract and retain other qualified personnel, could adversely affect our operations and hence, our financial results.

We are subject to fluctuations in the prices of principal raw materials in our operations.

The key components and raw materials used in our production and manufacturing processes are toluene, chlorine, benzene, styrene and phthalic anhydride, maleic anhydride, propylene glycol and ethylene diglycol which in aggregate constituted approximately 75% of our total cost of sales. As these materials constitute key components of our manufacturing processes, any fluctuation in the prices of such raw materials which may in turn have an impact on our production costs. In line with industry practice, we do not have long-term supply contracts with our suppliers. A shortage of any key raw materials or components could limit our production, and is likely to increase the costs of our products, thereby depressing the margins for our products. Further, although we produce a number of intermediary materials such as MA, PCT and OCT in-house for the production of PCT/OCT downstream products and UPR products, there can be no assurance that we will be able to continue to do so in a cost-effective manner.

There is no assurance that we will be able to obtain an adequate supply of key raw materials at competitive prices. Market prices of such raw materials may also be volatile due to factors beyond our control, such factors include, inter alia, general economic conditions, changes in the level of global demand and the availability of supply. Any substantial increase in the prices of these raw materials is likely to have a material adverse impact on our production costs. In the event of any significant increase in the cost of such raw materials, and should we be unable to pass on such costs to our customers on a timely basis, our business, profitability and financial performance will be adversely affected.

We are vulnerable to fluctuations in the prices of our products.

We are subject to fluctuations in demand for our products due to a variety of factors, including general economic conditions, competition, product obsolescence, shifts in buying patterns, financial difficulties and budget constraints of our actual and potential customers and other factors. Some of our products may experience great price fluctuation.

While such factors may, in some periods, increase product sales, fluctuations in demand can also negatively impact in product sales. If demand for our products declines or the prices of our products decline because of general economic conditions or for other reasons, our revenues and gross margin could be adversely affected.

We may be affected by disruptions to our processing facilities.

Our processing facilities are located at Zhenjiang City, Jiangsu Province, the PRC. The production facilities are subject to operational risks, such as industrial accidents, which could cause personal injury or loss of human life, the breakdown or failure of equipment, power supplies or processes, performance below expected levels of output or efficiency, obsolescence, labor disputes, natural disasters and the need to comply with relevant regulatory and requirements. From time to time, we may need to carry out planned shutdowns of our processing plants for routine maintenance, statutory inspections and testing and may need to shut down various plants for capacity expansions and equipment upgrades. In addition, due to the nature of our business, and despite compliance with requisite safety requirements and standards, the production process is still subject to operational risks, including discharges or releases of hazardous substances, exposure to contamination and leakages from other factories and operations in the vicinity. These operational risks may cause personal injury or loss of human life and could result in the imposition of civil and criminal penalties. The occurrence of any of these events could have a material adverse effect on the productivity and profitability of a particular production facility and on our business, results of operations and financial condition.

Although we have taken precautions to minimize the risk of any significant operational problems at our production facilities, there can be no assurance that our business, results of operations and financial condition may not be adversely affected by disruptions caused by operational hazards at our production facilities, or at other factories and facilities in the vicinity. Moreover, our production processes are continuously being modified and updated. As a result of manufacturing process updates and improvements, from time to time, we may experience shutdowns, and disruptions to the operations.

The occurrence of any of the above events may cause us to stop or suspend our processing operations and we may not be able to deliver the products to our customers on a timely basis, which would have an adverse impact on its business, financial position and profitability.

Our insurance coverage may not adequately protect us against certain operating and other hazards which may have an adverse effect on our business.

We make substantial investments in complex manufacturing and production facilities and transportation equipment. Many of the production processes, raw materials and certain finished products are potentially destructive and dangerous in uncontrolled or catastrophic circumstances, including operating hazards, fires and explosions, and natural disasters such as typhoons, floods, earthquakes and major equipment failures for which insurance may not be obtainable at a reasonable cost or at all. We maintain insurance policies covering losses due to fire and other calamities. We also maintain insurance policies for fixed assets, such as vehicles, machineries, facilities and buildings which cover against damage caused by certain accidents and natural disasters. Should an accident or natural disaster occur, it may cause significant property damage, disruption to operations and personal injuries and our insurance coverage may be inadequate to cover such loss. Should an uninsured loss or a loss in excess of insured limits occur, we could suffer from damage to our reputation or lose all or a portion of production capacity as well as future revenues anticipated to derive from the relevant facilities. While we maintain coverage from insurance policies for our production facilities which are in line with the industry norms, we cannot assure you that our insurance coverage would be sufficient to cover all our potential losses.

Our profitability may be affected by a failure to compete effectively in a competitive environment.

We operate in a highly competitive environment and are subject to competition from both existing competitors and new market entrants. Rapid technological advances and aggressive pricing strategies by our competitors may continue to increase competition. In order to remain competitive, we must continue to improve our materials supply chain, foster production self-sufficiency, upgrade technology and manufacturing process and introduce new products to the market in a timely manner. Our ability to do so depends on factors both within and outside of our control and may be constrained by the distinct characteristics and production requirements of individual products. There can be no assurance that we will be able to continue to improve production efficiency and maintain reasonable margins for all of our existing products, or that we will be able to successfully introduce new products that are able to command higher margins. Some of our competitors may have superior financial, marketing, manufacturing, research and development and technological resources, greater brand name recognition and larger customer bases than it.

Accordingly, these competitors may have the ability to respond more quickly to new or emerging technologies, adapt more quickly to changes in customer requirements and devote greater resources to the development, promotion and sales of their products and/or services. There is no assurance that we will be able to continue competing successfully against present and future competitors.

Our management believes that the important factors to achieving success in our industry include maintaining customer loyalty by cultivating long-term customer relationships and maintaining the quality of our products and services. If we are unable to attain these, we may lose customers to our competitors and this will adversely affect our market share. Increased competition may also force us to lower our prices, thus reducing our profit margins and affecting our financial performance and condition. Such competition may have a material adverse effect on our business, financial position and results of operations.

Our business may be adversely affected if our customers place lower than expected orders.

As is customary in our industry, we do not obtain firm and long-term volume purchase commitments from our customers. Although we may from time to time enter into sales agreements with our key customers which normally include general terms of sale, specification requirements and pricing policy, such agreements generally do not specify a minimum purchase volume or a specific purchase price. The precise terms for each shipment, such as pricing, product specifications and quantities, are normally confirmed at the time each order is placed.

Accordingly, we face the risk that our customers might place lower than expected orders, if at all, or cancel existing plans for orders. Although the customers might be contractually obliged to purchase products on specific terms from

us for particular orders, we may be unable to or, for other business reasons, choose not to enforce our contractual rights if the customers terminate their orders. Cancellations, reductions or instructions to delay production by a significant customer could materially and adversely affect our results of operations by reducing our sales volume, as well as by possibly causing a delay in the customers' repayment of our expenditures for inventory and resulting in lower utilization of the manufacturing facilities, all of which may result in lower gross margins.

Our reputation and business may suffer if we fail to manufacture products within the acceptable quality range and optimal production yields, which could cause us to lose customers.

Product quality can be affected by a number of factors, including the level of contaminants in the manufacturing environment, the contamination of raw materials, equipment malfunction, process adjustments made to manufacture new products, interruptions in availability of utilities, deficiencies in quality control and inadequate sample testing. Many of our customers require stringent quality requirements in the procurement of their supplies.

We have in place stringent quality control processes as set out in the section “Quality Control” of this report and ensure that our raw materials, manufacturing systems and processes and products meet the highest standards of quality. If we fail to maintain high quality production standards, our reputation may suffer and customers may cancel their orders or return their products for replacement, which will materially and adversely affects our results of operations and financial condition. In the event we are unable to maintain such stringent quality control, we may be at risk of losing customers.

We may be unable to adapt to technological changes and other industry standards.

We operate in a technologically dependent industry and are required to quickly adapt to technological changes and industry standards as well as the changing needs of customers. In the event that we are unable to keep up with the technological developments and develop new products on time, or if we fail to anticipate and adapt to changes in our customers’ requirements, our current products and technology may face the risk of becoming obsolete and we would not be able to fully meet our customers’ needs. This may then result in a decrease in demand for our products and have a negative impact on our financial performance.

We may be exposed to risk of infringement of our intellectual property rights.

We rely primarily on patent, trademark, trade secret, copyright law and other contractual restrictions to protect our intellectual property. Nevertheless, these afford only limited protection and the actions we may take to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary technologies or other intellectual property rights, which could have a material adverse effect on our business, financial condition, results of operations and prospects. As of the date of this report, we own nine patents in the PRC in respect of UPR production and are in the midst of applying for four more patents.

Although our senior management personnel would, under the relevant PRC laws relating to duties of directors or the terms of their employment contracts, have a general duty of confidentiality, there is no assurance that there will be no unauthorized disclosure of our trade secrets or other proprietary information. In the event that there is a leakage of such trade secrets or proprietary information to our competitors and other third parties, it may limit our ability to maintain our competitive edge and to grow our business.

Further, as we have not yet received patent protection for some of our proprietary information, there is no assurance that we will obtain adequate remedies in the event of an unauthorized disclosure of the proprietary information to our competitors or other third parties. Should there be a loss of proprietary information, our operations, financial position and prospects may be adversely affected.

We may not be able to ensure the successful implementation of our future plans and strategies.

We intend to expand product lines and our distribution network. Such initiatives involve various risks including but not limited to the investment costs in establishing a distribution network within the PRC, setting up of new production facilities and offices and working capital requirements. There is no assurance that such future plans can be successfully implemented as the successful execution of such future plans will depend on several factors, some of which are not within our control, such as retaining and recruiting qualified and skilled staff, and the continued demand for our products by our customers. Failure to implement any part of our future plans or executing such plan costs effectively, may lead to a material adverse change in our operating environment or affect our ability to respond to market or industry changes, which may, in turn, adversely affect our business and financial results.

We are exposed to the credit risks of our customers.

Our business and financial results are dependent on the credit worthiness of our customers and this risk increases with, inter alia, the customer's proportion of purchases from us. We usually offer our customers credit terms of up to 120 days. Although there has not been any material collection problem for trade receivables or any other allowance for doubtful debts during the past three fiscal years, there is no assurance that we will not encounter bad debt problems in the future. Should we experience any unexpected delay or difficulty in collections from our customers, our cash flow and financial results may be adversely affected.

In addition, any deterioration in the financial position of our customers may materially affect our profits and cash flow as these customers may default on their payments to us. We cannot assure you that such defaults will not increase in the future or that we will not experience cash flow problems as a result of such defaults. Should these develop into actual events, our business and financial results will be adversely affected.

We may require additional funding for future growth.

Our business and the nature of the industry in which we operate will require us to make substantial capital expenditures in terms of both plants, equipment and operations and for research and development capabilities. In particular, we may expand our production capacity in certain of our production facilities to cater to the expected increase in demand. These capital expenditures will be spent in advance of any additional sales to be generated by new or upgraded production facilities as a result of these expenditures. There is a risk that we may in the future incur operating losses if our net operating revenue does not adequately recover our capital expenditures.

In connection with our business strategy, we have continued to make regular capital investments and expenditures. We expect to incur further capital expenditures for the fiscal year 2017 in connection with the construction and the expansion of production facilities.

The additional funding and capital expenditures is expected to be funded from proceeds from existing cash balances and credit lines, cash inflow from operations and existing and future bank borrowing. However, in the event of adverse market conditions in the future or changes in our growth, manufacturing process, product technologies, prices of machinery and equipment or interest rates, our actual expenditures may exceed our planned expenditures and we may not have sufficient sources of liquidity to effect the current operational plan and would need to secure additional financing from external sources. Our failure to obtain any required financing could impair our ability to both serve our existing clients base and develop new clients and could result in both a decrease in revenue and an increase in our loss.

To the extent that we require financing, we would intend to seek funding for our capital needs through the issuance of debt, preferred stock, common equity, loan guarantees, or a combination of these types of instruments. We may also seek to obtain financing through a private placement or a public offering, a consequence of which could include the sale or issuance of stock to third parties. To the extent additional funding is required, we cannot assure you that it will be able to get additional financing on any terms acceptable to us, and, if it is able to raise funds, it may be necessary for us to sell our securities at a price which is at a significant discount from the market price and on other terms which may be disadvantageous to us. In connection with any such financing, we may be required to provide registration rights to the investors. The price and terms of any financing which would be available to us could result in the issuance of a significant number of shares. If we are required to issue a significant number of shares, stockholders could suffer substantial dilution.

We are dependent on our “DELTA” brand.

We rely on our “DELTA” brand in the marketing and distribution of our products. We believe that we have built significant goodwill in our brand in terms of the quality of products and services and it is widely recognized by the fine chemical industry in the PRC. We consider our “DELTA” brand to be vital in promoting product recognition and customer loyalty. Hence, if there are any major defects in our products or adverse publicity on our brand, the goodwill in our brand will be adversely affected and our customers may lose confidence in our products. This will adversely affect our sales of products, hence affecting our business and financial performance.

In order to protect our trademark, we have applied to register our “DELTA” label as a trademark in the PRC. We rely on PRC trademark laws but there is no assurance that this means of protecting our trademark will be effective or that our competitors will not adopt product names or trademarks that are similar to ours. We are also vulnerable to attempts by third parties to pass off their products as ours by using our trademark. Adequate protection of our intellectual property is important to our business. Although we may take legal action against those who infringe our intellectual property rights, it may need to incur substantial time and resources and there is no assurance that we will be able to stop or prevent such infringement completely. Unauthorized use of our trademarks could adversely affect our performance and business reputation. Should such counterfeit products be of inferior quality, the goodwill in our brand may be eroded. Hence, our business and financial performance will be adversely affected if we are unable to protect our intellectual property rights effectively.

Defective or non-compliant products may lead to significant liability and exposure to negative publicity which would adversely affect our business and profits.

Our products are sold mainly to manufacturers. Although we have not faced any adverse claims or complaints regarding our products to date, there can be no assurance that our products will not cause personal injury or health complications to users. Further, in the event that our products are defective or non-compliant with specifications, we may be liable to complaints, lawsuits and claims from our customers which in turn could generate negative publicity and materially and adversely affect our business and financial condition. Any successful product liability claim against us may adversely affect our business and reputation. A product liability claim, even without merit, could result in us incurring significant expenses and expending substantial time and efforts of our management in defending such a claim. Even if we are able to successfully defend any such claim, there can be no assurance that our customers will not lose confidence in our products, thereby affecting our business and reputation.

Defective or non-compliant products may lead to significant liability exposure as the company does not maintain product liability insurance coverage.

In the event our products are defective or non-compliant with specifications, we may be liable to complaints, lawsuits and claims from our customers, which could result in liability claims. We do not maintain any product liability insurance coverage to offset any such liability and, as a result, any such claims could potentially lead to significant losses in the event of an adverse claim or complaint concerning our products.

Because our contracts are individual purchase orders and not long-term agreements, the results of our operations can vary significantly from quarter to quarter.

We currently do not have any long-term contracts with our customers for our products. While we do not depend on any single customer for a significant portion of our revenues, there is a risk that existing customers will elect not to do business with us in the future or will experience financial difficulties. There is also a risk that our customers will attempt to impose new or additional requirements on it that reduce the profitability of those customers for us. If we do not develop relationships with new customers, we may not be able to increase, or even maintain, our revenue, and our financial condition, results of operations, business and/or prospects may be materially adversely affected.

Our top customer accounts for approximately 20% of our total orders and the loss of our top customer would negatively affect our business.

Our top customer accounts for approximately 20% of our overall business. If we lose our top customer without finding a new customer or customers, this could result in a significant loss of revenue to our business.

Our top supplier accounts for approximately 35% of our total goods required for the products we develop and the loss of this supplier could cause significant disruption in our supply chain and the development of our products.

Our largest supplier accounts for approximately 35% of the total raw materials we require to produce our products. In the event we lose this supplier for any reason, there can be no assurance that there will not be a significant disruption in the supply of raw materials to our business or that we would be able to locate alternative suppliers of materials of comparable quality at an acceptable price, or at all. Identifying a suitable supplier is an involved process that requires us to become satisfied with their quality control, responsiveness and service, financial stability and labor and other ethical practices. Any delays, interruption or increased costs in the supply of materials could have an adverse effect on our ability to meet customer demand for our products and result in lower net revenue and income from operations both in the short and long-term.

Potential claims alleging infringement of third party's intellectual property by us could harm our ability to compete and result in significant expense to us and loss of significant rights.

From time to time, third parties may assert patent, copyright, trademark and other intellectual property rights to technologies that are important to our business. Any claims that our products or processes, whether in relation to the

specific circumstances set out above or otherwise, infringe the intellectual property rights of others, regardless of the merit or resolution of such claims, could cause us to incur significant costs in responding to, defending, and resolving such claims, and may divert the efforts and attention of our management and technical personnel away from the business. As a result of such intellectual property infringement claims, we could be required or otherwise decide it is appropriate to pay third-party infringement claims; discontinue manufacturing, using, or selling particular products subject to infringement claims; discontinue using the technology or processes subject to infringement claims; develop other technology not subject to infringement claims, which could be time-consuming and costly or may not be possible; and/or license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms. The occurrence of any of the foregoing could result in unexpected expenses or require us to recognize an impairment of our assets, which would reduce the value of the assets and increase expenses. In addition, if we alter or discontinue the production of affected items, our revenue could be negatively impacted.

Risks Relating to Doing Business in the PRC

Our subsidiaries, main operations and assets are located in the PRC. Shareholders may not be accorded the same rights and protection that would be accorded under the US law. In addition, it would be difficult to enforce a U.S. judgment against our PRC subsidiaries and our officers and directors.

The Company is a holding company and all of our operations and assets are held in overseas subsidiaries. Our PRC subsidiaries, Jiangsu Delta and Binhai Deda were established in the PRC, and their main operations and assets are located in the PRC. Our PRC subsidiaries, main operations and assets are therefore subject to the relevant laws and regulations of the PRC. In addition, a majority of our officers and directors are non-residents of the United States and substantially all their assets are located outside the United States. As a result, it could be more difficult for investors to effect service of process in the United States, or to enforce a judgment obtained in the United States against any of our PRC subsidiaries or any of these persons.

Our business is subject to certain PRC laws and regulations.

Our business and operations in the PRC are subject to government rules and regulations, including environmental, working safety, road transportation and health regulations. Any changes in such government regulations may have a negative impact on our business.

Breaches or non-compliance with these PRC laws and regulations may result in the suspension, withdrawal or termination of our business licenses or permits, or the imposition of penalties, by the relevant authorities. Our PRC subsidiaries' business licenses are also granted for a finite period and any extension thereof is subject to the approval of the relevant authorities. Any suspension, withdrawal, termination or refusal to extend our PRC subsidiaries' business licenses or permits would cause the cessation of production of certain or all of our products, and this would adversely affect our PRC subsidiaries' business, financial performance and prospects.

Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in.

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, circulars and directives. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is generally developing at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances.

Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still subject to policy changes. There is no assurance that the introduction of new laws, changes to existing laws and the interpretation or application thereof or the delays in obtaining approvals from the relevant authorities will not have an adverse impact on our PRC subsidiaries' business, financial performance and prospects.

Further, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited, and unlike other common law countries such as the United States, decisions on precedent cases are not binding on lower courts. As such, the outcome of dispute resolutions may not be consistent or predictable as in the other more developed jurisdictions and it may be difficult to obtain swift or equitable enforcement of the laws in the PRC, or obtain enforcement of judgment by a court of another jurisdiction.

New rules on mergers and acquisitions of domestic enterprise by foreign investors.

In particular, on August 8, 2006, Ministry of Commerce ("MOC"), China Security and Regulatory Commission ("CSRC"), State Administration of Foreign Exchange ("SAFE") and State Administration for Industry and Commerce of the PRC ("SAIC"), State Administration for Taxation ("SAT") and National Development and Reform Commission ("NDRC") promulgated the Provisions on the Mergers and Acquisitions of Domestic Enterprise by Foreign Investors ("M&A Regulations" or "Provision 10"), which came into effect on September 8, 2006 and was revised on June 22, 2009 by MOC. The Provision 10 was supplemented by the Provisions on indirect issuance of securities overseas by a domestic enterprise or overseas listing of its securities for trading issued by CSRC on by the Guidelines on Domestic Enterprises indirectly issuing securities overseas or listing and trading their securities overseas ("CSRC Guidelines") issued by the CSRC on September 21, 2006.

In the opinion of our PRC Counsel, Jingtian & Gongcheng, based on its understanding of current PRC laws and regulations, Provision 10 does not apply to each of Jiangsu Delta acquisition by Zhengxin International, Jiangsu Delta acquisition by Delta and Zhengxin R&D acquisition by Jiangsu Delta (collectively the "PRC Acquisitions"), and hence

the PRC Acquisitions are not subject to the MOC's approval.

However, there is no assurance that the relevant Chinese government agency, including the CSRC, would reach the same conclusion as our PRC Counsel. If the CSRC or any other Chinese regulatory bodies subsequently determine that we need to obtain the CSRC approval for our acquisition of PRC subsidiaries, we may face regulatory actions or other sanctions from the CSRC or other Chinese regulatory bodies. This may have a material adverse impact on our business, financial condition, results of operations, remittance of profits as well as the trading prices of our shares.

Failure of our PRC resident shareholders to comply with regulations on foreign exchange registration of overseas investment by PRC residents could cause us to lose our ability to contribute capital to our PRC subsidiaries and remit profits out of the PRC as dividends.

The Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Financing and Round Trip Investment via Overseas Special Purpose Vehicles (“Circular 75”), issued by the SAFE and effective on November 1, 2005, regulates the foreign exchange matters in relation to the use of a “special purpose vehicle” by PRC residents to seek offshore equity financing and conduct a “round trip investment” in China. Under Circular 75, a “special purpose vehicle” refers to an offshore entity directly established or indirectly controlled by PRC resident natural or legal persons (“PRC residents”) for the purpose of seeking offshore equity financing using assets or interests owned by such PRC residents in onshore companies, while “round trip investment” refers to the direct investment in China by such PRC residents through the “special purpose vehicles,” including, without limitation, establishing foreign-invested enterprises and using such foreign-invested enterprises to purchase or control onshore assets through contractual arrangements. Circular 75 requires that, before establishing or controlling a “special purpose vehicle”, PRC residents and PRC entities are required to complete a foreign exchange registration with the competent local branches of the SAFE for their overseas investments. After the completion of a round-trip investment or the overseas equity financing, the PRC residents are required to go through foreign exchange registration alteration formalities of overseas investment in respect of net assets of special purpose vehicles that such PRC residents hold and the variation thereof.

In addition, an amendment to the registration is required if there is a material change in the “special purpose vehicle,” such as increase or reduction of share capital and transfer of shares. Failure to comply with the registration procedures set forth in Circular 75 may result in restrictions on the foreign exchange activities of the relevant foreign-invested enterprises, including the payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate and the capital inflow from the offshore parent, and may also subject the relevant PRC residents to penalties under PRC foreign exchange administration regulations.

We have requested our current PRC resident shareholders and/or beneficial owners to disclose whether they or their shareholders or beneficial owners fall within the scope of the Circular 75 and urges PRC residents to register with the local SAFE branch as required under the Circular 75. Our affiliates subject to the SAFE registration requirements, including Mr. Xin Chao and Mr. Lei Shen, have informed it that they have made their initial registrations with SAFE dated June 5, 2013. The failure of our PRC resident shareholders and/or beneficial owners to timely amend their SAFE registrations pursuant to the Circular 75 or the failure of our future shareholders and/or beneficial owners who are PRC residents to comply with the registration requirement set forth in the Circular 75 may subject such shareholders, beneficial owners and/or our PRC subsidiaries to fines and legal sanctions. Any such failure may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to distribute dividends to us or otherwise adversely affect our business.

The PRC government could restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain expenses as they come due or may restrict which limit the payment of dividends from the Company.

Our results and financial conditions are highly susceptible to changes in the PRC's political, economic and social conditions as our revenue is currently wholly derived from our operations in the PRC.

Since 1978, the PRC government has undertaken various reforms of its economic systems. Such reforms have resulted in economic growth for the PRC in the last three decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. This refinement and adjustment process may consequently have a material impact on our operations in the PRC or a material adverse impact on our financial performance. Our results and financial condition may be adversely affected by changes in the PRC's political, economic and social conditions and by changes in policies of the PRC government or changes in laws, regulations or the interpretation or implementation thereof.

Dividends payable to us by our PRC subsidiaries may be subject to PRC withholding taxes, dividends distributed to our non-PRC investors and gains realized by our non-PRC shareholders from the transfer of our securities may be subject to PRC withholding taxes under the Enterprise Income Tax Law.

The Enterprise Income Tax Law ("EIT Law") imposes a 10% withholding income tax on dividends generated on or after January 1, 2008 and distributed by a resident enterprise to its foreign investors, if such foreign investors are considered as non-resident enterprises without any establishment or place of business within China or if the received dividends have no connection with such foreign investors' establishment or place of business within China, unless such foreign investors' jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The British Virgin Islands, where we are incorporated, does not have such tax treaty with China. According to the Arrangement between Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income in August 2006, dividends paid by a foreign invested enterprise, or FIE, to its foreign investors in Hong Kong will be subject to withholding tax at a preferential rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). The State Administration of Taxation further promulgated a circular, or Circular 601, on October 27, 2009, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance and that a beneficial ownership analysis will be used based on a "substance-over-form" principle to determine whether or not to grant the tax treaty benefits. Our subsidiaries in China are directly invested in and held by a Hong Kong registered entity. If we are regarded as a non-resident enterprise and our Hong Kong entity regarded as resident enterprise, then our Hong Kong entity may be required to pay a 10% withholding tax on any dividends payable to it. If our Hong Kong entity is regarded as non-resident enterprises, then our subsidiaries in China will be required to pay a 5% withholding tax for any dividends payable to our Hong Kong entities provided that specific conditions are met.

However, it is still unclear at this stage whether Circular 601 applies to dividends from our PRC subsidiaries paid to our Hong Kong subsidiary and if our Hong Kong subsidiary were not considered as “beneficial owners” of any dividends from our PRC subsidiaries, the dividends payable to our Hong Kong subsidiary would be subject to withholding tax at a rate of 10%. In either case, the amount of funds available to us, including the payment of dividends to our shareholders, could be materially reduced. In addition, because there remains uncertainty regarding the concept of “the place of de facto management body,” if we are regarded as a resident enterprise, under the EIT Law, any dividends to be distributed by us to our non-PRC shareholders will be subject to PRC withholding tax. We also cannot guarantee that any gains realized by such non-PRC shareholders from the transfer of our shares will not be subject to PRC withholding tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC shareholders or any gains realized by our non-PRC shareholders from transfer of our shares, their investment in our shares may be materially and adversely affected.

We may be subject to a significant withholding tax should equity transfers by our non-resident enterprises be determined to have been done without a reasonable business purpose.

In December 2009, the State Administration of Tax in China issued a circular on strengthening the management of proceeds from equity transfers by non-resident enterprises and requires foreign entities to report indirect sales of resident enterprises. If the existence of the overseas intermediary holding company is disregarded due to lack of reasonable business purpose or substance, gains on such sale are subject to PRC withholding tax. Due to limited guidance and implementation history of the circular, significant judgment is required in determining the existence of a reasonable business purpose by considering multiple factors, such as the form and substance of the arrangement, time of establishment of the foreign entity, relationship between each step of the arrangement, relationship between each component of the arrangement, implementation of the arrangement and the changes in the financial position of all parties involved in the transaction. Although we believe that our transactions during all the periods presented would be determined to have reasonable business purposes, should this not be the case, we would be subject to a significant withholding tax that could materially and adversely impact our financial position, results of operations and cash flows.

Uncertainty in the interpretation of PRC tax regulations may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of our investment in it.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or SAT Circular 698, issued by the State Administration of Taxation in December 2009, with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5% or (ii) does not impose income tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

On March 28, 2011, the State Administration of Taxation released SAT Public Notice (2011) No. 24, or SAT Public Notice 24, to clarify several issues related to Circular 698. SAT Public Notice 24 became effective on April 1, 2011. According to SAT Public Notice 24, the term “effective tax rate” refers to the effective tax rate on the gain derived from disposition of the equity interests of an overseas holding company; and the term “does not impose income tax” refers to the cases where the gain derived from disposition of the equity interests of an overseas holding company is not subject to income tax in the country/region where the overseas holding company is a resident.

There is uncertainty as to the application of SAT Circular 698. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or made any formal declaration as to the process and format for reporting an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there are no formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. SAT Circular 698 may be determined by the tax authorities to be applicable to previous investments by non-resident investors in its company, if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our existing non-resident investors may be at risk of being taxed under SAT Circular 698 and may be required to expend valuable resources to comply with SAT Circular 698 or to establish that we should not be taxed under SAT Circular 698, which may have a material adverse effect on our financial condition and results of operations or such non-resident investors’ investments in us. We have conducted and may conduct transactions involving our corporate structure. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds from the offerings of any securities to make loans or additional capital contributions to our PRC operating subsidiaries.

As an offshore holding company, our ability to make loans or additional capital contributions to our PRC operating subsidiaries is subject to PRC regulations and approvals. These regulations and approvals may delay or prevent us from using the proceeds we received in the past or will receive in the future from the offerings of securities to make loans or additional capital contributions to our PRC operating subsidiaries, and impair our ability to fund and expand our business which may adversely affect our business, financial condition and result of operations.

For example, the SAFE promulgated the Circular on the Relevant Operating Issues concerning Administration Improvement of Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 142, on August 29, 2008. Under Circular 142, registered capital of a foreign-invested company settled in RMB converted from foreign currencies may only be used within the business scope approved by the applicable governmental authority and may not be used for equity investments in the PRC. In addition, foreign-invested companies may not change how they use such capital without the SAFE's approval, and may not in any case use such capital to repay RMB loans if they have not used the proceeds of such loans. Furthermore, the SAFE promulgated a circular on November 9, 2010, or Circular 59, which requires the authenticity of settlement of net proceeds from offshore offerings to be closely examined and the net proceeds to be settled in the manner described in the offering documents. In addition, to strengthen Circular 142, on November 9, 2011, the SAFE promulgated the Circular on Further Clarifying and Regulating Relevant Issues Concerning the Administration of Foreign Exchange under Capital Account, or Circular 45, which prohibits a foreign invested company from converting its registered capital in foreign exchange currency into RMB for the purpose of making domestic equity investments, granting entrusted loans, repaying inter-company loans, and repaying bank loans that have been transferred to a third party. Circular 142, Circular 59 and Circular 45 may significantly limit our ability to transfer the net proceeds from offerings of our securities or any future offering to our PRC subsidiaries and convert the net proceeds into RMB, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert RMB into foreign currencies and, if RMB were to decline in value, reducing our revenues and profits in U.S. dollar terms.

Our reporting currency is the U.S. dollar and our operations in China use RMB as functional currencies. The majority of our revenues derived and expenses incurred are in Chinese RMB with a relatively small amount in U.S. dollars. We are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the RMB depends to a large extent on Chinese government policies and China's domestic and international economic and political developments, as well as supply and demand in the local market. Starting July 2005, the Chinese government changed its policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB has fluctuated within a narrow and managed band against a basket of certain foreign currencies. It is possible that the Chinese government will adopt a more flexible currency policy, which could result in more significant fluctuations of the RMB against the U.S. dollar.

The income statements of our China operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced revenues, operating expenses and net income for our non-U.S. operations. Similarly, to the extent the U.S. dollar weakens against foreign currencies, the translation of RMB denominated transactions results in increased revenues, operating expenses and net income for our non-U.S. operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our non-U.S. subsidiaries into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the non-U.S. subsidiaries' financial statements We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future. The availability and effectiveness

of any hedging transaction may be limited and we may not be able to successfully hedge our exchange rate risks.

Although Chinese governmental policies were introduced in 1996 to allow the convertibility of RMB into foreign currency for current account items, conversion of RMB into foreign exchange for most of the capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange, or SAFE. These approvals, however, do not guarantee the availability of foreign currency. We cannot be sure that we will be able to obtain all required conversion approvals for our operations or that Chinese regulatory authorities will not impose greater restrictions on the convertibility of RMB in the future. Because a significant amount of our future revenues are in the form of RMB, our inability to obtain the requisite approvals or any future restrictions on currency exchanges could limit our ability to utilize revenue generated in RMB to fund our business activities outside China, or to repay non-RMB-denominated obligations, including our debt obligations, which would have a material adverse effect on our financial condition and results of operations.

Restrictions on paying dividends or making other payments to us by our subsidiaries in China.

We are a holding company and do not have any assets or conduct any business operations in China other than our investments in our subsidiaries in China. As a result, if our non-China operations require cash from China, we would depend on dividend payments from our subsidiaries in China. We cannot make any assurance that we can continue to receive payments from our subsidiaries in China. In addition, under Chinese law, our subsidiaries are only allowed to pay dividends to us out of their distributable earnings, if any, as determined in accordance with Chinese accounting standards and regulations. Moreover, our Chinese subsidiaries are required to set aside at least 10% of their respective after-tax profit each year, if any, to fund certain mandated reserve funds, unless these reserves have reached 50% of their registered capital. These reserve funds are not payable or distributable as cash dividends. For Chinese subsidiaries with after-tax profits for the periods presented, the difference between after-tax profits as calculated under PRC accounting standards and U.S. GAAP relates primarily to share-based compensation expenses and intangible assets amortization expenses, which are not pushed down to our subsidiaries under PRC accounting standards. In addition, under the EIT Law and its implementing Rules, dividends generated from our PRC subsidiaries after January 1, 2008 and payable to their immediate holding company incorporated in Hong Kong generally will be subject to a withholding tax rate of 10% (unless the PRC tax authorities determine that our Hong Kong subsidiary is a resident enterprise). If certain conditions and requirements under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income entered into between Hong Kong and the PRC and other related PRC laws and regulations are met, the withholding rate could be reduced to 5%.

The Chinese government also imposes controls on the convertibility of RMB into foreign currencies and the remittance of currency out of China in certain cases. We have experienced and may continue to experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. If we or any of our subsidiaries are unable to receive substantially all of the economic benefits from our operations through these contractual or dividend arrangements, we may be unable to effectively finance our operations or pay dividends on our ordinary shares.

PRC laws and regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

A number of PRC laws and regulations, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors adopted by six PRC regulatory agencies in 2006, or the M&A Rules, the Antimonopoly Law, and the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by the Ministry of Commerce in August 2011, or the Security Review Rules, have established procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time consuming and complex. These include requirements in some instances that the Ministry of Commerce be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from the Ministry of Commerce be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review.

The Security Review Rules were formulated to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, also known as Circular 6, which was promulgated in 2011. Under these rules, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises have “national security” concerns. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review, the Ministry of Commerce will look into the substance and actual impact of the transaction. The Security Review Rules further prohibits foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

There is no requirement for foreign investors in those mergers and acquisitions transactions already completed prior to the promulgation of Circular 6 to submit such transactions to the Ministry of Commerce for security review. As we have already obtained the “de facto control” over our affiliated PRC entities prior to the effectiveness of these rules, we do not believe we are required to submit our existing contractual arrangements to the Ministry of Commerce for security review.

However, as these rules are relatively new and there is a lack of clear statutory interpretation on the implementation of the same, there is no assurance that the Ministry of Commerce will not apply these national security review-related rules to the acquisition of equity interest in our PRC subsidiaries. If we are found to be in violation of the Security Review Rules and other PRC laws and regulations with respect to the merger and acquisition activities in China, or fail to obtain any of the required approvals, the relevant regulatory authorities would have broad discretion in dealing with such violation, including levying fines, confiscating our income, revoking our PRC subsidiaries' business or operating licenses, requiring us to restructure or unwind the relevant ownership structure or operations. Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition and results of operations. Further, if the business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or through any contractual arrangement. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

The PRC Labor Contract Law and its implementing rules may adversely affect our business and results of operations.

The PRC Labor Contract Law became effective and was implemented on January 1, 2008. The PRC Labor Contract Law has reinforced the protection for employees who, under the PRC Labor Contract Law, have the right, among others, to have written labor contracts, to enter into labor contracts with no fixed terms under certain circumstances, to receive overtime wages and to terminate or alter terms in labor contracts. Furthermore, the PRC Labor Contract Law establishes additional restrictions and increases the costs involved with dismissing employees. As the PRC Labor Contract Law is relatively new, there remains significant uncertainty as to its interpretation and application by the PRC Government. In the event that we decide to significantly reduce our workforce, the PRC Labor Contract Law could adversely affect our ability to do so in a timely and cost effective manner, and our results of operations could be adversely affected. In addition, for employees whose contracts include non-competition terms, the Labor Contract Law requires us to pay monthly compensation after such employment is terminated, which will increase our operating expenses.

Failure by our PRC shareholders or beneficial owners to make required foreign exchange filings and registrations may prevent us from distributing dividends and expose us to liabilities under the PRC laws.

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles ("SAFE Circular No. 37"), which was promulgated by SAFE and became effective on July 14, 2014, requires a PRC individual resident ("PRC Resident") to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle ("Offshore SPV") that is directly established or controlled by the PRC Resident

for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC Resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV's registered capital, share transfer or swap, merger or division. Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV's PRC subsidiary to distribute dividends to its overseas parent.

Our existing PRC Resident shareholders and beneficial owners currently are subject to the registration procedures under SAFE Circular No. 37. However, as SAFE Circular No. 37 was recently promulgated, it is unclear how this regulation and any future regulation concerning offshore or cross-border transactions will be interpreted, amended or implemented by the relevant government authorities. It cannot be predicted that how these regulations will affect our business operations or future strategies. Any failure by our PRC Resident shareholders or beneficial owners to make the updates with SAFE may subject the relevant PRC Resident shareholders or beneficial owners to penalties, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends, or affect our ownership structure and capital inflow from our offshore subsidiaries. As such, our business, financial condition, results of operations and liquidity as well as our ability to pay dividends or make other distributions to our shareholders may be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights, and any failure to protect our intellectual property rights could adversely affect our revenues and competitive position.

We believe that trademarks, trade secrets, patents, copyrights, and other intellectual property we use are important to our business. We rely on a combination of trademark, copyright, patent and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. We have invested significant resources to develop our own intellectual property and acquire licenses to use and distribute the intellectual property of others. A failure to maintain or protect these rights could harm our business. In addition, any unauthorized use of our intellectual property by third parties may adversely affect our current and future revenues and our reputation.

The validity, enforceability and scope of protection available under intellectual property laws in the PRC are uncertain and still evolving. Implementation and enforcement of PRC intellectual property-related laws have historically been deficient and ineffective. Accordingly, protection of intellectual property rights in the PRC may not be as effective as in the United States or other western countries. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend patents issued to us or our other intellectual property or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation, if any, could result in substantial costs and diversion of resources and management attention.

There are defects in our titles of or rights to use our properties.

We have not received the record of completion acceptance from the relevant authority for our facilities used in our production and storage ("Properties"). We do not have valid title or right to the said Properties. Any dispute or claim in relation to the title to the Properties, including any litigation involving allegations of illegal or unauthorized use of the Properties, may materially and adversely affect our operations, financial condition, reputation and future growth.

However, we are in the process of applying to the relevant authority to obtain the completion acceptance for the Properties.

One of our subsidiaries is manufacturing certain products that are beyond its business scope.

Jiangsu Delta has been producing UPR, which is beyond the business scope of Jiangsu Delta. As a result, Jiangsu Delta may be penalized and, as a result, the business license of Jiangsu Delta may be revoked by relevant authority. However, Jiangsu Delta is applying to relevant authority to enlarge its business scope to include production of UPR. In the event that such approval is not obtained, Jiangsu Delta will have to suspend production of UPR, which might adversely affect our financial prospect and results of operation.

One of our subsidiaries is conducting certain business that is beyond its approved production capacity.

Jiangsu Delta is producing 30,000 tons of PCT/OCT series and downstream products per annum, which are beyond the approved annual production capacity of 10,000 tons. As a result, Jiangsu Delta might face a penalty of RMB 500,000 to RMB 1,000,000 by the relevant governmental authority. However, Jiangsu Delta has applied to relevant authority to increase Jiangsu Delta's annual approved production capacity to 30,000 tons. In the event that such application is denied, Jiangsu Delta will have to reduce its actual production under the approved capacity. As a result, our production might not keep up with the demand of our customers, which may adversely affect our revenue and financial conditions.

Risks Relating to Our Securities

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

The market price of our ordinary shares and warrants is volatile, and this volatility may continue. Numerous factors, many of which are beyond our control, may cause the market price of our ordinary shares to fluctuate significantly. These factors include:

- our earnings releases, actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- speculation about our business in the press or the investment community;
- significant developments relating to our relationships with our customers or suppliers;
-

stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the same industry as we are;

customer demand for our products;
investor perceptions of the chemical industry in general and our company in particular;
the operating and stock performance of comparable companies;
general economic conditions and trends;
major catastrophic events;
announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
changes in accounting standards, policies, guidance, interpretation or principles;
loss of external funding sources;
failure to maintain compliance with NASDAQ rules;
sales of our ordinary shares, including sales by our directors, officers or significant shareholders; and
additions or departures of key personnel.

Securities class action litigation is often instituted against companies following periods of volatility in their share price. This type of litigation could result in substantial costs to us and divert our management's attention and resources. Moreover, securities markets may from time to time experience significant price and volume fluctuations for reasons unrelated to operating performance of particular companies. For example, in July 2008, the securities markets in the United States, China and other jurisdictions experienced the largest decline in share prices since September 2001. These market fluctuations may adversely affect the price of our ordinary shares, warrants and other interests in our company at a time when you want to sell your interest in us.

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

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

On April 1, 2016, we received a letter from the Listing Qualifications staff of The Nasdaq Stock Market ("NASDAQ") notifying us that for the preceding 30 consecutive business days our ordinary share did not maintain a minimum closing bid price of at least \$1.00 per share as required by Nasdaq Listing Rule 5550(a)(2). We have a grace period of 180 calendar days, or until September 26, 2016, to regain compliance with the minimum closing bid price requirement for continued listing. On July 6, 2016, NASDAQ notified the Company that it has regained compliance since the bid price of the Company's ordinary shares closed at or above \$1.00 per share for the last 10 business days, from June 21, 2016 to July 5, 2016.

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

While we believe that we currently have adequate internal control procedures in place, we are still exposed to potential risks from legislation requiring companies to evaluate controls under Section 404 of the Sarbanes-Oxley Act of 2002.

Under the supervision and with the participation of our management, we have evaluated our internal controls systems in order to allow management to report on the system and process evaluation and testing required in an effort to comply with the management certification and auditor attestation requirements of Section 404. As a result, we have incurred additional expenses and a diversion of management's time.

If we fail to maintain effective internal control over financial reporting in the future, a material misstatement of our financial statements may not be prevented or detected on a timely basis. In addition, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our shares. Furthermore, if we are not able to continue to meet the requirements of Section 404 in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities, such as the SEC or the NASDAQ. Any such action could adversely affect our financial results and the market price of our ordinary shares and warrants.

As a foreign private issuer, we have limited reporting requirements under the Securities Exchange Act of 1934, which makes us less transparent than a United States issuer.

As a foreign private issuer, the rules and regulations under the Exchange Act provide us with certain exemptions from the reporting obligations of United States issuers. We are exempt from the rules prescribing the furnishing and content of proxy statements, and our officers, directors and principal stockholders are exempt from the reporting and short-swing profit recovery provisions. Also, we are not required to publish financial statements as frequently, as

promptly or containing the same information as United States companies. The result is that we will be less transparent than a U.S. issuer.

As a foreign private issuer, we are not subject to certain NASDAQ corporate governance rules applicable to public companies organized in the United States.

We rely on a provision in the NASDAQ Stock Market's Listed Company Manual that allows us to follow BVI law with regard to certain aspects of corporate governance. This allows us to follow certain corporate governance practices that differ in significant respects from the corporate governance requirements applicable to U.S. companies listed on the NASDAQ Stock Market.

For example, we are exempt from regulations of the NASDAQ Stock Market that require listed companies organized in the United States to:

- have a majority of the board of directors consist of independent directors;
- have an audit committee consisting solely of independent directors;
- have a compensation committee consisting solely of independent directors;
- have a nominating committee consisting solely of independent directors.

As a foreign private issuer, we are permitted to follow home country practice in lieu of the above requirements. Accordingly, our shareholders may not have the same protections afforded to shareholders of companies that are subject to these NASDAQ Stock Market requirements.

We are an “emerging growth company” and may not be subject to requirements that other public companies are subject to, which could harm investor confidence in us and our securities.

We are an “emerging growth company” as defined in the Jumpstart Our Business Act of 2012, or the JOBS Act, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies, including an exemption from the requirement to comply with the auditor attestation requirements of Section 404 and an exemption from the requirement to adopt and comply with new or revised accounting standards at the same time as other public companies. We will remain an emerging growth company until the earliest of (a) the last day of our fiscal year during which we have total annual gross revenues of at least US\$1.0 billion; (b) the last day of our fiscal year following the fifth anniversary of the

completion of our initial public offering; (c) the date on which we have, during the previous three-year period, issued more than US\$1.0 billion in non-convertible debt; or (d) the date on which we are deemed to be a “large accelerated filer” under the Exchange Act, which would occur if the market value of our ADSs that are held by non-affiliates exceeds US\$700 million as of the last business day of our most recently completed second fiscal quarter.

The JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we will elect to “opt out” of this provision and, as a result, we will comply with any new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

If some investors find our securities less attractive because we may rely on these exemptions, there may be a less active trading market for our securities and their price may be more volatile.

We may be classified as a passive foreign investment company for United States federal income tax purposes, which could result in adverse United States federal income tax consequences to U.S. Holders. Based on the market price of our ordinary shares, the value of our assets, and the composition of our assets and income, we do not believe that we were a passive foreign investment company (a “PFIC”) for United States federal income tax purposes for our taxable year ended June 30, 2016 and we do not expect to be one for our taxable year ending June 30, 2017 or to become one in the foreseeable future. Nevertheless, the application of the PFIC rules is subject to ambiguity in several respects and, in addition, we must make a separate determination each year as to whether we are a PFIC (after the close of each taxable year). Accordingly, we cannot assure you that we will not be a PFIC for the current or any other taxable year. Moreover, although we do not believe we would be treated as a PFIC, we have not engaged any U.S. tax advisers to determine our PFIC status. In addition, if you owned our ordinary shares at any time prior to our acquisition of Elite, you may be considered to own stock of a PFIC by virtue of the fact that we may have been a PFIC during the period prior to our acquisition of Elite, unless you made certain elections to opt out of PFIC treatment, as described in Item 10. E. – “Taxation – U.S. Federal Income Taxation.”

A non-United States corporation, such as us, will be classified as a PFIC for United States federal income tax purposes for any taxable year, if either (1) 75% or more of its gross income for such year consists of certain types of “passive” income, or (2) 50% or more of its average quarterly assets as determined on the basis of fair market value during such year produce or are held for the production of passive income. Because there are uncertainties in the application of the relevant rules and PFIC status is a fact-intensive determination made on an annual basis, no assurance can be given with respect to our PFIC status for the current or any other taxable year.

If we are characterized as a PFIC for any year, a U.S. holder may incur significantly increased United States income tax on gain recognized on the sale or other disposition of our ordinary shares and on the receipt of distributions on our ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules.

We have outstanding exercisable securities that may dilute your holdings.

Our outstanding exercisable securities may adversely affect the market price of our shares.

As of the date of this report, we have issued and outstanding securities exercisable into 6,735,570 ordinary shares (warrants for the purchase of 6,175,570 shares and a unit purchase option for 280,000 shares and warrants to purchase 280,000 shares). The sale or possibility of sale of the shares underlying these securities could have an adverse effect on the market price for its securities or its ability to obtain future financing. If and to the extent these securities are converted or exercised, you may experience dilution to your holdings.

We have outstanding a dividend payable of \$35,000,000, the payment of which would be given preference ahead of our ordinary shareholders in the event of liquidation.

We presently have an outstanding dividend payable of \$35,000,000. On September 13, 2014, the directors of Delta approved a resolution for a cash dividends distribution of \$35,000,000. According to the resolution, the dividends are to be distributed to Mr. Yan Hong, Mr. Shen Lei and Mr. Chao Xin (together, the “Dividend Recipients”) in accordance with their respective percentage shareholdings in Delta as follows: (i) \$392,000 to Mr. Yan Hong; (ii) \$392,000 to Mr. Shen Lei; and (iii) \$34,216,000 to Mr. Chao Xin. As at June 30, 2016, the dividends were not paid.

One of our stockholders holds a significant percentage of our outstanding voting securities.

Mr. Xin Chao, who is our Chief Executive Officer and Chairman of the Board, directly or indirectly owns approximately 25% of our outstanding voting securities. As a result, he possesses significant influence, giving him the ability, among other things, to elect a majority of its Board of Directors and to authorize or prevent proposed significant corporate transactions. His ownership and control may also have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discourage a potential acquirer from making a tender offer, all of which may prevent it from implementing its business strategies.

Risk Relating to British Virgin Islands

Rights of shareholders under British Virgin Islands law differ from those under United States law, and, accordingly, our shareholders may have fewer protections.

Our corporate affairs are governed by our Memorandum and Articles of Association, the BVI Business Companies Act, 2004 (as amended, the “BVI Act”) and the common law of the British Virgin Islands. The rights of shareholders to take legal action against our directors, actions by minority shareholders and the fiduciary responsibilities of our directors under British Virgin Islands law are to a large extent governed by the common law of the British Virgin

Islands and by the BVI Act. 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 precedents 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. As a result of the foregoing, holders of our ordinary shares may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than they would as shareholders of a U.S. company.

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

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

It may be difficult to enforce judgments against us or our executive officers and directors in jurisdictions outside the United States.

Under our Memorandum and Articles of Association, as amended, we may indemnify and hold our directors harmless against all claims and suits brought against them, subject to limited exceptions. Furthermore, to the extent allowed by law, the rights and obligations among or between us, any of our current or former directors, officers and employees and any current or former shareholder will be governed exclusively by the laws of the British Virgin Islands and subject to the jurisdiction of the British Virgin Islands courts, unless those rights or obligations do not relate to or arise out of their capacities as such. Although there is doubt as to whether United States courts would enforce these provisions in an action brought in the United States under United States securities laws, these provisions could make judgments obtained outside of the British Virgin Islands more difficult to enforce against our assets in the British Virgin Islands or jurisdictions that would apply British Virgin Islands law.

British Virgin Islands companies may not be able to initiate shareholder derivative actions, thereby depriving shareholders of one avenue 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 of 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 judgments of courts in the United States based on certain liability provisions of United States securities law or to impose liabilities, in original actions brought in the British Virgin Islands, based on certain liability provisions of the United States 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 the Company successfully, they may not be able to recover anything to make up for the losses suffered.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were formed under the name of “CIS Acquisitions Ltd.” on November 28, 2011, under the laws of the British Virgin Islands. We were formed to acquire, through a merger, stock exchange, asset acquisition, stock purchase or similar acquisition transaction, one or more operating businesses. Although we were not limited to a particular geographic region or industry, we intended to focus on operating businesses with primary operations in Russia and Eastern Europe. We had no operations and generated no operating revenues until we completed the acquisition of Elite as more fully discussed below.

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act.

Initial Public Offering

On December 21, 2012, we consummated our initial public offering of 4,000,000 units at a public offering price of \$10.00 per unit, generating gross proceeds of \$40,000,000. Each unit consisted of one redeemable Class A Share, par value \$0.0001 per share, and one redeemable warrant. Each redeemable warrant entitled the holder to purchase one

ordinary share at a price of \$10.00. Immediately prior to the consummation of the IPO, we completed a private placement of 4,500,000 warrants at a price of \$0.75 per warrant, for an aggregate purchase price of \$3,375,000, to our founding shareholders and their designees. We sold to the underwriters of the IPO, as additional compensation, an aggregate of 136,000 Class A Shares for \$2,720.

A total of \$41,600,000, which included a portion of the \$3,375,000 of proceeds from the private placement of warrants to the founding shareholders and their designees, were placed in trust (the “Trust Account”) pending the completion of our initial acquisition transaction.

Acquisition of Elite

On September 19, 2014, upon closing of a stock purchase agreement dated September 16, 2014, by and among the Company, Elite Ride Limited, a British Virgin Islands corporation (“Elite”), Delta Advanced Materials Limited, a Hong Kong corporation (“Delta”) and the shareholders of Elite (the “Elite Shareholders”), we acquired all the outstanding shares of Elite in exchange for the issuance to the Elite Shareholders an aggregate of 6,060,000 ordinary shares, of which 4,560,000 shares were issued at closing and 1,500,000 shares (“Earnout Payment Shares”) are held in escrow and will be released upon meeting of certain performance targets as specified in the stock purchase agreement (the “Acquisition”). Thus far, we have released 500,000 of the Earnout Payment Shares as a result of Delta meeting its performance targets for the fiscal year ending June 30, 2015.

The Earnout Payment Shares, if any, will be released as follows: (a) 500,000 shares if the Company achieves Adjusted Net Income (as defined in the stock purchase agreement) of at least \$8 million for the period starting July 1, 2014 and ending June 30, 2015; (b) 500,000 shares if the Company achieves Adjusted Net Income of at least \$9.2 million for the period starting July 1, 2015 and ending June 30, 2016; (c) 500,000 shares if the Company achieves Adjusted Net Income of at least \$10.6 million for the period starting July 1, 2016 and ending June 30, 2017 (collectively, the “Net Income Targets”). Further, during the thirteen months post-closing, all material acquisitions made by the Company must be accretive to Company earnings. The Net Income Targets are to be met on an all-or-nothing basis, and there shall be no partial awards.

Concurrently with the Acquisition, we also issued 500,000 ordinary shares to Kyle Shostak and CIS Acquisition Holding Co. Ltd. (collectively, the “CIS Sponsor”).

We have agreed that in the event that there is any exercise of the redeemable warrants which were issued in the IPO or the warrants to purchase ordinary shares issued to any CIS Sponsor, any proceeds of such exercise shall be paid to certain shareholders of Elite. We will not retain any portion of the proceeds of such exercise.

In addition, we entered into a call