

MEXICO FUND INC
Form 497
June 12, 2013
Table of Contents

Prospectus Supplement

(To Base Prospectus Dated June 10, 2013)

The Mexico Fund, Inc.

4,100,000 Shares of Common Stock

The Mexico Fund, Inc. (the "Fund") has entered into an equity distribution agreement with UBS Securities LLC ("UBS") relating to shares of the Fund's common stock, par value \$1.00 per share, offered by this prospectus supplement and the accompanying base prospectus. In accordance with the terms of the equity distribution agreement dated June 12, 2013 (the "Distribution Agreement"), by and between the Fund and UBS, the Fund may offer and sell up to 4,100,000 shares of its common stock from time to time through UBS as its sales agent or to UBS as principal. Sales of the shares of common stock, if any, may be made by means of ordinary brokers' transactions on the New York Stock Exchange (the "NYSE") at market prices and such other sales as agreed upon by the Fund and UBS. UBS may not sell the shares of the Fund's common stock in block transactions or distributions without the Fund's prior written consent. The Fund's common stock is listed on the NYSE under the symbol MXF. On June 7, 2013, the last reported sales price of the Fund's common stock on the NYSE was \$32.44 per share.

UBS will receive from the Fund a commission of 1.00% based on the gross sales price per share for any shares sold through it as sales agent under the Distribution Agreement. Any underwriting discount and commissions with respect to any transaction in which UBS purchases shares as principal will be set forth in the applicable prospectus supplement.

Before buying any shares of the Fund's common stock, you should carefully consider the risk factors described in "Risk Factors and Special Considerations" beginning on page 16 of the accompanying base prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying base prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

UBS Investment Bank

Edgar Filing: MEXICO FUND INC - Form 497

This Prospectus Supplement is dated June 12, 2013

Table of Contents

You should rely on the information contained or incorporated by reference in this prospectus supplement and the accompanying base prospectus. The Fund has not, and UBS has not, authorized any other person to provide you with different information. The Fund is not, and UBS is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus supplement and the accompanying base prospectus is current as of the date such information is presented. The Fund's business, financial condition, result of operations and prospects may have changed since such dates.

You should read this prospectus supplement and the accompanying base prospectus before deciding whether to invest in the Fund's common stock and retain it for future reference. This prospectus supplement and the accompanying base prospectus contain important information about the Fund. Material that has been incorporated by reference and other information about the Fund can be obtained from the Fund by calling collect Mr. Eduardo Solano, the Fund's Investor Relations Vice President, at (52 55) 5280-3247, during Mexico City business hours (10:00 a.m. to 3:00 p.m. and 5:00 to 7:00 p.m. ET) or from the website of the Securities and Exchange Commission (SEC) at <http://www.sec.gov>. The information on the Fund's website is not a part of this prospectus supplement nor is it incorporated by reference.

TABLE OF CONTENTS

	Page
Prospectus Supplement	
<u>Table of Fees and Expenses</u>	S-2
<u>Use of Proceeds</u>	S-2
<u>Price Range of Shares of Common Stock</u>	S-4
<u>Plan of Distribution</u>	S-5
<u>Legal Matters</u>	S-6
Base Prospectus	
<u>Prospectus Summary</u>	2
<u>Fund Expenses</u>	8
<u>Financial Highlights</u>	9
<u>The Offer</u>	11
<u>Use of Proceeds</u>	11
<u>The Fund</u>	12
<u>Investment Objective and Policies</u>	14
<u>Investment Restrictions</u>	15
<u>Risk Factors and Special Considerations</u>	16
<u>Portfolio Composition</u>	22
<u>Management of the Fund</u>	23
<u>Code of Ethics</u>	35
<u>Advisory Agreement</u>	35
<u>Portfolio Management</u>	37
<u>Legal Proceedings</u>	38
<u>Proxy Voting Policy</u>	38
<u>Fund Services Agreements</u>	39
<u>Portfolio Transactions and Brokerage</u>	40
<u>Net Asset Value of Common Stock</u>	40
<u>Dividends and Capital Gain Distributions</u>	41
<u>Discount Reduction Efforts</u>	41
<u>Distribution Reinvestment and Stock Purchase Plan</u>	41
<u>Taxation</u>	44
<u>Capital Stock</u>	49
<u>Custodian and Transfer Agent</u>	51
<u>Experts</u>	51
<u>Legal Matters</u>	51
<u>Financial Statements</u>	52

Table of Contents**TABLE OF FEES AND EXPENSES**

Stockholder transaction expenses	
Sales load (as a percentage of the subscription price) (1)	1.00%
Offering expenses (as a percentage of offering price)	0.20%
Distribution Reinvestment and Stock Purchase Plan fees	None
	(As a Percentage of Net Assets Attributable to the Common Stock)(2)
Annual expenses	
Management fee	0.95%
Administrative fee	0.11%
Interest payments on borrowed funds	0%
Other expenses	0.38%
Total annual expenses	1.44%

- (1) Represents the commission with respect to the shares of the Fund's common stock being sold in this offering. There is no guarantee that there will be any sales of shares of the Fund's common stock pursuant to this prospectus supplement and the accompanying base prospectus.
- (2) Fees payable under the Advisory Agreement and Fund Services Agreement are calculated on the basis of the Fund's average daily net assets. See Advisory Agreement and Fund Services Agreements in the accompanying base prospectus. Other expenses have been estimated by annualizing actual expenses through the first fiscal quarter.
- The above table is intended to assist the Fund's investors in understanding the various costs and expenses associated with investing in the Fund.

Hypothetical example

An investor would directly or indirectly pay the following expenses on a \$1,000 investment in the Fund, assuming a 5% annual return:

1 Year	3 Years	5 Years	10 Years
\$26.65	\$57.44	\$90.44	\$183.65

This hypothetical example assumes that all dividends and other distributions are reinvested at NAV and that the percentage amounts listed under Annual expenses above remain the same in the years shown. The above tables and the assumption in the hypothetical example of a 5% annual return are required by regulation of the SEC applicable to all investment companies; the assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Fund's shares. For more complete descriptions of certain of the Fund's costs and expenses, see Management of the Fund, Advisory Agreement and Fund Services Agreements.

The hypothetical example should not be considered a representation of future expenses or rate of return and actual Fund expenses may be greater or less than those shown.

USE OF PROCEEDS

Sales of shares of the Fund's common stock, if any, under this prospectus supplement and the accompanying base prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act of 1933, as amended (the Securities Act), including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange. There is no guarantee that there will be any sales of shares of the Fund's common stock pursuant to this prospectus supplement and the accompanying

Edgar Filing: MEXICO FUND INC - Form 497

base prospectus. Actual sales, if any, of shares of the Fund's common stock under this prospectus supplement and the accompanying base prospectus may be less than as set forth in this paragraph. In addition, the

S-2

Table of Contents

price per share of any such sale may be greater or less than the price set forth in this paragraph, depending on the market price of the shares of the Fund's common stock at the time of any such sale. As a result, the actual net proceeds the Fund receives may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of all of the shares of the Fund's common stock offered under this prospectus supplement and the accompanying base prospectus, at the last reported sale price of \$32.44 per share of the Fund's common stock on the NYSE as of June 7, 2013, the Fund estimates that the net proceeds of this offering will be approximately \$131,403,960 after deducting the estimated sales load and the estimated offering expenses payable by the Fund.

The Fund anticipates that it will be able to invest substantially all of the net proceeds of an offering in accordance with its investment objectives and policies within approximately 60 days after receipt by the Fund. Pending such investment, the Fund anticipates investing the proceeds in short-term securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations or money market instruments.

Table of Contents**PRICE RANGE OF SHARES OF COMMON STOCK**

The following table sets forth, for the quarters indicated, the highest and lowest daily closing prices on the NYSE per share of common stock, and the net asset value per share and the premium to or discount from net asset value, on the date of each of the high and low market prices. The table also sets forth the number of shares of common stock traded on the NYSE during the respective quarters.

During Quarter Ended	NAV per Share on Date of Market Price High and Low		NYSE Euronext Market Price Per Share		Premium/(Discount) on Date of Market Price High and Low		Trading Volume
	High	Low	High	Low	High	Low	
April 30, 2010	\$ 29.50	\$ 24.28	\$ 26.25	\$ 21.20	(12.74)	(10.01)	1,877,571
July 31, 2010	\$ 28.25	\$ 24.57	\$ 25.00	\$ 21.35	(14.51)	(10.04)	2,027,391
October 31, 2010	\$ 29.50	\$ 25.24	\$ 26.87	\$ 22.46	(11.68)	(8.75)	1,804,198
January 31, 2011	\$ 32.26	\$ 29.44	\$ 29.31	\$ 26.25	(13.00)	(8.38)	1,362,583
April 30, 2011	\$ 31.90	\$ 29.56	\$ 29.08	\$ 26.65	(11.40)	(8.24)	1,142,329
July 31, 2011	\$ 31.13	\$ 29.66	\$ 28.26	\$ 26.49	(11.18)	(8.27)	1,603,277
October 31, 2011	\$ 29.67	\$ 22.32	\$ 27.23	\$ 20.57	(10.01)	(4.78)	1,659,688
January 31, 2012	\$ 25.98	\$ 22.76	\$ 23.72	\$ 20.79	(12.03)	(6.29)	1,574,346
April 30, 2012	\$ 28.04	\$ 26.04	\$ 25.75	\$ 23.93	(9.76)	(6.85)	2,313,876
July 31, 2012	\$ 28.29	\$ 23.96	\$ 25.77	\$ 21.85	(10.22)	(7.95)	1,673,998
October 31, 2012	\$ 29.86	\$ 27.05	\$ 29.05	\$ 24.73	(9.66)	(2.45)	1,570,936
January 31, 2013	\$ 32.63	\$ 27.91	\$ 32.81	\$ 25.42	(10.79)	1.58	2,730,244
April 30, 2013	\$ 34.23	\$ 31.24	\$ 38.60	\$ 30.42	17.53	(2.71)	1,124,373

On June 7, 2013, the per share net asset value of the Fund's common stock was \$30.07 per share and the per share market price was \$32.44.

Table of Contents

PLAN OF DISTRIBUTION

The Fund has entered into the Distribution Agreement with UBS pursuant to which the Fund may issue and sell up to 4,100,000 shares of its common stock from time to time through UBS as its sales agent or to UBS as principal. Sales of shares of the Fund's common stock, if any, under this prospectus supplement and the accompanying base prospectus may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange. UBS may not sell the shares of the Fund's common stock in block transactions or distributions without the Fund's prior written consent.

UBS, as sales agent, will use its reasonable efforts to solicit offers to purchase the shares of the Fund's common stock on a daily basis or as otherwise agreed upon by the Fund and UBS. The Fund will designate the maximum amount of shares of its common stock to be sold through UBS on a daily basis or otherwise as UBS and the Fund agree. Subject to the terms and conditions of the Distribution Agreement, UBS will use its reasonable efforts to sell on the Fund's behalf all of the designated shares of the Fund's common stock. The Fund may instruct UBS not to sell shares of the Fund's common stock if the sales cannot be effected at or above the price designated by the Fund in any such instruction. The Fund or UBS may suspend the offering of shares of the Fund's common stock by notifying the other party.

The Fund will pay UBS a commission equal to 1.00% of the gross sales price of any such shares sold through it as sales agent as set forth in the Distribution Agreement. The remaining sales proceeds, after deducting any expenses payable by the Fund and any transaction fees imposed by any governmental or self-regulatory organization in connection with the sales, will equal the Fund's net proceeds for the sale of the shares. The Fund estimates that the total expenses for the offering, excluding compensation payable to UBS under the terms of the Distribution Agreement, will be approximately \$270,000.

Settlement for sales of the Fund's common stock will occur on the third business day following the date on which any sales were made in return for payment of the net proceeds to the Fund. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

The Fund will deliver to the NYSE copies of this prospectus supplement pursuant to the rules of the exchange. The Fund will report at least quarterly the number of shares of its common stock sold through UBS, as sales agent, in at-the-market offerings, the net proceeds to the Fund and the compensation paid by the Fund to UBS in connection with such sales of the Fund's common stock.

In connection with the sale of the Fund's common stock hereunder, UBS may be deemed to be an underwriter within the meaning of the Securities Act, and the compensation paid to UBS may be deemed to be underwriting commissions or discounts. The Fund has agreed to provide indemnification and contribution to UBS against certain civil liabilities, including liabilities under the Securities Act.

If UBS or the Fund has reason to believe that the Fund's common stock is no longer an actively traded security as defined under Rule 101(c)(1) of Regulation M under the Securities Exchange Act of 1934, as amended, that party will promptly notify the other party and sales of shares of the Fund's common stock under the Distribution Agreement and any terms agreement thereunder will be suspended until that provision or other exemptive provisions have been satisfied in the judgment of UBS and the Fund.

The offering of shares of the Fund's common stock pursuant to the Distribution Agreement will terminate upon the earlier of (i) the sale of all shares of the Fund's common stock subject to the Distribution Agreement, and (ii) the termination of the Distribution Agreement by either UBS or the Fund.

UBS may engage in transactions with, or perform services for, the Fund in the ordinary course of business for which it will receive customary compensation.

Table of Contents

LEGAL MATTERS

The validity of the shares offered hereby will be passed on for the Fund by Dechert LLP, 1900 K Street, NW, Washington, DC 20006. Matters of Mexican law will be passed on for the Fund by Creel, García-Cuéllar, Aiza y Enriquez, S.C., Paseo de los Tamarindos 60, Col. Bosque de las Lomas, 05120 México, D.F. México. Certain legal matters in connection with shares offered hereby will be passed upon for UBS by Morrison & Foerster LLP, New York, New York.

Samuel García-Cuéllar, a partner of Creel, García-Cuéllar, Aiza y Enriquez, S.C., serves as Secretary of the Fund. Sander M. Bieber, a partner of Dechert LLP, serves as Assistant Secretary to the Fund.

S-6

Table of Contents

BASE PROSPECTUS

4,100,000 Shares

The Mexico Fund, Inc. (the Fund)

Shares of Common Stock

The Fund is a non-diversified, closed-end management investment company whose primary investment objective is long-term capital appreciation through investment in securities, primarily equity, listed on the Bolsa Mexicana de Valores, S.A. de C.V. (the Mexican Stock Exchange or Bolsa). See Investment objective and policies and Investment restrictions in this prospectus.

The net asset value per share of the Fund's common stock at the close of business on June 4, 2013 (the last trading date prior to the date of this prospectus on which the Fund determined its net asset value) was \$30.52 and the last reported sale price of a share on the New York Stock Exchange (NYSE) on that day was \$32.24.

The Fund may offer, from time to time, in one or more offerings, its shares of common stock, par value \$1.00 per share (Shares). Shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each, a Prospectus Supplement). You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in Shares.

Shares may be offered directly to one or more purchasers, through agents designated from time to time by the Fund, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of the Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Fund may not sell any of the Shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of the Shares.

This prospectus, together with the Prospectus Supplement, sets forth concisely the information about the Fund that a prospective investor ought to know before investing and should be retained for future reference. Stockholders may obtain additional information about the Fund from the Fund's reports filed with the Securities and Exchange Commission (the SEC). You may obtain a copy of the Fund's reports filed with the SEC by contacting Mr. Eduardo Solano, the Fund's Investor Relations Vice President, at (+ 52 55) 5282-8900, during Mexico City business hours (10:00 a.m. to 3:00 p.m. and 5:00 to 7:00 p.m. ET) between the hours of 9:00 a.m. and 5:00 p.m. New York City time, Monday-Friday (except holidays). The Fund also makes its reports available free of charge on the Fund's website at www.themexicofund.com under Investor Reports. In addition, the reports filed with the SEC, including material incorporated by reference into this prospectus and the Prospectus Supplement, are available at the SEC's website at www.sec.gov.

Investors are advised to read this prospectus and the Prospectus Supplement and retain both for future reference.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus or the Prospectus Supplement is truthful or complete. Any representation to the contrary is a criminal offense.

Unless otherwise indicated, U.S. dollar equivalent information in the prospectus and Prospectus Supplement for the peso as of a specified date is based on the open market exchange rate prevailing in Mexico City published by Bloomberg. On June 4, 2013, the exchange rate was 12.7141 Mexican pesos per one U.S. dollar, and the daily calculation of the Fund's net asset value, expressed in dollar terms, are determined by using this exchange rate.

Prospectus dated June 10, 2013

Table of Contents

Prospectus Summary

The following summary is qualified in its entirety by reference to the more detailed information appearing elsewhere or incorporated by reference in this prospectus and any related Prospectus Supplement. It may not contain all of the information that is important to each stockholder. Accordingly, to understand the offer fully, stockholders are encouraged to read the entire document carefully.

THE OFFER AT A GLANCE

Purpose of the offer

The Board of Directors of the Fund (Board or Board of Directors) and Impulsora del Fondo Mexico, S.C., the Fund's investment adviser (the Investment Adviser) have determined that it would be in the best interest of the Fund and its stockholders to increase the assets of the Fund available for investment, thereby enabling the Fund to more fully take advantage of available investment opportunities arising as a result of continued positive developments in Mexico and the Mexican securities market and consistent with the Fund's investment objective of long-term capital appreciation and in accordance with its efforts to seek out and invest in attractive growth oriented businesses including but not limited to small and medium capitalization companies.

The Board and the Investment Adviser also believe that an increase in the size of the Fund may result in a modest reduction in the Fund's expense ratio. There can be no assurance that the offer will be successful or that by increasing the size of the Fund, the Fund's aggregate expenses and, correspondingly, its expense ratio, will be lowered. See The offer Purpose of the offer.

The offer

The Fund may offer, from time to time, in one or more offerings, up to 4,100,000 Shares on terms to be determined at the time of the offering. The Shares may be offered at prices and on terms to be set forth in one or more Prospectus Supplements. The offering price of the Shares will not be less than the net asset value of the Shares at the time the Fund makes the offering, exclusive of any underwriting commissions or discounts. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in the Shares. The Shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of the Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between the Fund and its agents or underwriters, or among the Fund's underwriters, or the basis upon which such amount may be calculated. The Fund may not sell any of the Shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Shares.

Use of proceeds

The Fund intends to use the net proceeds from the sale of Shares primarily to invest in accordance with its investment objective and policies. Proceeds will be invested within approximately 60 days of receipt by the Fund, depending on market conditions and the availability of appropriate investment opportunities. See Use of proceeds.

THE FUND AT A GLANCE

The Fund

The Fund is a non-diversified, closed-end management investment company organized as a Maryland corporation. As of June 4, 2013 (the last trading date prior to the date of this prospectus on which the Fund determined its NAV), the Fund's NAV per Share was \$30.52 and the last reported sale price of a share on the NYSE was \$32.24. See The Fund.

NYSE listed

As of April 30, 2013, the Fund had 13,408,785 Shares of common stock outstanding. The Fund's common stock is traded on the NYSE under the symbol MXF. See The Fund Description of common stock.

Investment objective

Edgar Filing: MEXICO FUND INC - Form 497

The Fund's investment objective is to seek long-term capital appreciation through investment in securities, primarily equity, listed on the Mexican Stock Exchange.

No assurance can be given that the Fund's investment objective will be achieved. See Investment objective and policies.

Table of Contents

Investment policies

For as long as the name of the Fund remains The Mexico Fund, Inc., it shall be the non-fundamental policy of the Fund to generally invest at least 80% of its total assets in equity securities listed on the Mexican Stock Exchange, but may reduce its holdings in equity securities listed on the Mexican Stock Exchange below 80% of its total assets for temporary defensive purposes when unusual market or economic conditions occur. This investment policy is a non-fundamental policy which may be changed by the Board of Directors upon 60 days prior written notice to Stockholders.

The Fund is a non-diversified fund for purposes of the Investment Company Act of 1940, as amended (the 1940 Act). The Fund has also adopted a policy which permits the Fund to concentrate (i.e., over 25% of the Fund's total assets) in investments in a particular industry or group of industries based on the representation of that industry or group of industries on a relevant Mexican stock index.

The Fund may invest in Mexican fixed-income securities, bank time deposits of Mexican banks, and short-term repurchase agreements, all of which are peso-denominated and may be dollar-linked (i.e., paid in pesos but with repayment linked to a dollar exchange rate), in order to provide appropriate liquidity to take advantage of market opportunities and meet cash requirements. The Fund may also invest in dollar-denominated deposits and dollar-denominated investments such as U.S. Treasuries, U.S. Agency Securities, Agency Mortgage Backed Securities and Mexican Sovereign Debt. As market or other conditions require, the proportion of the Fund's assets held in fixed-income securities or bank time deposits may vary. The Fund will not realize capital gains for the sole purpose of making distributions to stockholders. See Investment objective and policies.

Managed Distribution Plan and Other Discount Reduction Efforts

On August 12, 2008, the Fund received an exemptive order (the Order) from the Securities and Exchange Commission (SEC) under Section 19(b) of the Investment Company Act of 1940, as amended, which permits the Fund to distribute long-term capital gains to stockholders more than once per year. Following receipt of the Order, the Board of Directors approved the implementation of a Managed Distribution Plan (MDP) to make quarterly cash distributions to stockholders, pursuant to which the Fund currently pays quarterly distributions at an annual rate of 10% of the Fund's NAV per share recorded on the last business day of the previous calendar year.

The Fund is subject to a number of conditions under the Order, among them that the Fund may not make any public offering of the Fund's Shares other than (A) a rights offering below NAV to holders of the Fund's common stock; (B) an offering in connection with a dividend reinvestment plan, merger, consolidation, acquisition, spin-off or reorganization of the Fund; or (C) an offering other than an offering described in conditions (A) and (B) above, unless, with respect to such other offering: (1) the Fund's annual distribution rate for the six months ending on the last day of the month ended immediately prior to the declaration date of the most recent distribution is no more than one percentage point greater than the Fund's average annual total return for the five-year period ending on such date; and (2) the transmittal letter accompanying any registration statement filed with the SEC in connection with such offering discloses that the Fund has received an order under Section 19(b) to permit it to make periodic distributions of long-term capital gains with respect to its common stock as frequently as twelve times each year. As of the date of this prospectus, the Fund is in compliance with all conditions of the Order, including the aforementioned condition relating to public offerings. However, circumstances may arise in the future which would prevent this condition from being met, and which could therefore prevent the Fund from issuing Shares.

In addition to the MDP, the Fund continues to maintain and implement as part of its ongoing discount reduction efforts the following strategies: (i) an open market share repurchase policy and (ii) the monthly publication of the Fund's portfolio of investments. See Dividends and Capital Gain Distributions and Discount Reduction Efforts.

Investment Adviser

Impulsora del Fondo México, S.C. has acted as the Fund's Investment Adviser since the Fund's establishment in 1981. See Advisory Agreement.

The Investment Adviser also provides other fund services to the Fund pursuant to an Amended and Restated Fund Services Agreement, amended and restated as of December 6, 2011. See Fund Services Agreement.

Compensation of the Investment Adviser

The Fund pays the Investment Adviser a fee at the annual rate of 1.00% of the Fund's average daily net assets up to and including \$200 million, 0.90% of such assets between \$200 million and \$400 million, and 0.60% of such assets in excess of \$400 million, computed based upon the average daily value of the net assets of the Fund and payable within fifteen days after the end of each calendar month. See Advisory Agreement.

Edgar Filing: MEXICO FUND INC - Form 497

The Investment Adviser will benefit from the offer because its fees are based on the average net asset value applicable to Shares of the Fund.

Table of Contents

The Fund also pays Impulsora a fee for other fund services, computed at the end of each calendar month on the basis of the average daily value of the net assets of the Fund (as translated into U.S. dollars) for such month, at the annual rate of 0.11% of average daily net assets on assets under management up to \$600 million, and at the annual rate of 0.09% of average daily net assets on assets under management above \$600 million. The fee will not be lower than the annual amount of \$450,000. The fee is payable within fifteen days after the end of each calendar month. See Fund Services agreement.

Custodian

The Fund maintains securities listed on the Mexican Stock Exchange in the book-entry system of Indeval, the Mexican central securities depository. BBVA Bancomer, SA acts as the Fund's custodian for all Fund assets held in Mexico. Comerica Bank is the custodian for all assets held in the United States.

Transfer agent, dividend-paying agent and registrar

American Stock Transfer & Trust Company acts as the Fund's dividend-paying agent and as transfer agent and registrar for the Fund's common stock and Distribution Reinvestment and Stock Purchase Plan.

RISK FACTORS AND SPECIAL CONSIDERATIONS AT A GLANCE

Certain matters that you should consider, among others, in connection with the offer are summarized below. For a more complete discussion of the risk factors and special considerations involved in investing in the Fund's shares, see Risk factors and special considerations.

Foreign investments generally

Foreign investments may involve certain considerations and risks not typically associated with domestic investments as a result of, among others, the possibility of political and economic developments and the level of governmental supervision and regulation of foreign securities markets. In addition, certain foreign markets may be substantially more volatile than the major markets of the United States due to, among other things, the following factors: comparatively unstable political, social and economic conditions, and limited or ineffectual judicial systems; comparatively small market sizes, making securities less liquid and securities prices more sensitive to the movements of large investors and more vulnerable to manipulation; governmental policies or actions, such as high taxes, restrictions on currency movements, trade or diplomatic disputes, creation of monopolies, and the seizure of private property through confiscatory taxation and expropriation or nationalization of company assets; incomplete, outdated, or unreliable information about securities issuers due to less stringent market regulation and accounting standards; comparatively undeveloped markets and weak banking and financial systems; regulatory policies or actions; market inefficiencies, such as higher transaction costs, and administrative difficulties, such as delays in processing transactions; and fluctuations in foreign currency exchange rates, which could reduce gains or widen losses. In addition, foreign taxes could reduce the income available to distribute to shareholders, and special U.S. tax considerations could apply to foreign investments.

Mexico is considered to be an emerging market country. Foreign investment risks typically are greater in emerging markets than in developed markets, for such reasons as social or political unrest, heavy economic dependence on agriculture or exports (particularly commodities), undeveloped or overburdened infrastructures, vulnerability to natural disasters, significant and unpredictable government intervention in markets or the economy, currency devaluations, runaway inflation, environmental problems, and business practices that depart from norms for developed countries and less developed or liquid markets for securities generally.

Reduced market liquidity, as compared to U.S. markets, may also have an adverse effect on market price and the Fund's ability to dispose of particular instruments when necessary and may make it more difficult for the Fund to obtain accurate market quotations of portfolio securities for valuing the Fund's portfolio and calculating its net asset value. See Risk factors and special considerations Foreign investments generally.

Investment in Mexican securities

Investing in Mexican securities involves certain considerations not typically associated with investing in securities of U.S. issuers, including (1) less liquidity and smaller market capitalization; (2) greater currency fluctuations; (3) higher rates of inflation and domestic interest rates; and (4) less stringent disclosure requirements, less available information regarding Mexican public companies and less active regulatory oversight of Mexican public companies.

Edgar Filing: MEXICO FUND INC - Form 497

The Mexican securities market is not as large or as active as the securities markets in the United States. As of January 31, 2013, the Mexican equity market capitalization was approximately \$600 billion compared to the approximately \$20 trillion equity market capitalization of NYSE-listed equity securities. Generally, the Mexican securities market is characterized by a relatively small number of actively traded issuers and high price volatility. This may affect the rate at which the Fund is able to invest in listed Mexican securities, the purchase and sale prices for such securities and the timing of conversions, purchases and sales.

Table of Contents

There is less publicly available information about the issuers of certain Mexican securities than is regularly published by issuers in the United States, although some Mexican companies whose shares trade in U.S. markets comply with U.S. regulations. Further, financial statements and reported earnings of Mexican companies incorporate the effects of inflation and differ from those of U.S. companies in this respect as well as others. Also, there is generally less government supervision and regulation of exchanges, brokers and issuers in Mexico than there is in the United States. Mexican corporate laws regarding fiduciary responsibility and protection of stockholders are less developed than those in the United States.

The Fund is also subject to the risk of political and economic instability with respect to its investments in Mexico. Enrique Peña Nieto took office as the President of Mexico on December 1, 2012. Shortly thereafter, Mr. Peña Nieto and leaders of the three largest political parties signed the Pact for Mexico, in which they outlined a reform agenda and strategy for the next six years. Mr. Peña Nieto, a member of the Institutional Revolutionary Party (PRI) ended a 12-year period during which the National Action Party (PAN) held presidential office. The new presidential administration may have a strong influence over new policies and governmental actions regarding the Mexican economy and the current administration has implemented two important structural reforms: the Labor Reform and the Education Reform. Additionally, a third structural reform, the Telecommunications Reform, has been approved and will soon be enacted. Given these important recent developments, international investors are optimistic regarding the possibility of approval of a Fiscal Reform, under which the government may reduce its dependency on oil income, and an Energy Reform, which may include changes to allow the participation of the private sector in activities until now reserved to the government, and a Security Reform, aimed at reducing violence levels and enhancing the rule of law. All these structural reforms are expected to boost Mexico's economic growth in the medium- and long-term. However, the Investment Adviser cannot be assured that the Mexican political environment will be free of instability in the future. See Risk factors and special considerations Risks involved in Mexican investments.

Risk also exists in regards to the security situation in Mexico and the possibility that government expenditures required to combat the violence may divert resources away from other productive uses, such as economic development and related initiatives. The Fund's Investment Adviser believes that Mexico's prevailing stable economic environment, as well as the generally positive performance of Mexican listed companies and financial markets, are indicators that investors in Mexico are decoupling the security situation from their investment decisions, and that with the exception of the impact in a few tourist destinations, the security situation has not significantly affected the Mexican economy and financial markets. However, the Investment Adviser cannot state that this will continue to be the case in the future. See Risk factors and special considerations Security in Mexico.

Currency exchange rate fluctuations

The Fund is subject to the risk of a decline in the value of the peso against the U.S. dollar. Because almost all of the securities in the Fund's portfolio are quoted in pesos, these securities must increase in value at a rate in excess of any rate of decline of the peso against the U.S. dollar in order to avoid a decline in their equivalent U.S. dollar value. Accordingly, a future decline in the value of the peso against the U.S. dollar may result in a corresponding decline in the value of the securities held by the Fund that are denominated in pesos. Adverse developments in the political environment mentioned above could create further fluctuations in the valuation of the peso against the U.S. dollar. The peso has been subject to significant devaluations in the past, although not in the recent past, and there can be no assurance that similar devaluations will not take place in the future. The Fund does not generally hedge against a decline in the value of the peso. Thus, any decline in the value of the peso may have a direct negative impact on the valuation of the Fund's securities. See Risk factors and special considerations Currency exchange rate fluctuations.

Discount from net asset value

The Fund's Shares have historically traded in the market at a price which is below the Fund's NAV. This characteristic of shares of closed-end investment companies is a risk separate and distinct from the risk that the Fund's NAV will decrease. In the 12-month period ended December 31, 2012, the Fund's Shares traded in the market at an average discount to NAV of 8.1%. Since January 18, 2013, the Fund began trading at a premium. As of June 4, 2013, the premium was 5.64%. See Risk factors and special considerations Net asset value discount.

Investments in U.S. dollar-denominated instruments

The Fund may invest in dollar-denominated investments such as U.S. Treasuries, U.S. Agency Securities, Agency Mortgage Backed Securities and Mexican Sovereign Debt. Regarding certain U.S. federal agency securities or government sponsored-entity securities (such as debt securities or mortgage-backed securities issued by Freddie Mac, Fannie Mae, Federal Home Loan Banks, and other government-sponsored entities), although the issuer may be chartered or sponsored by Acts of Congress, the issuer is not funded by congressional appropriations and its securities are neither issued nor guaranteed by the United States Treasury. The U.S. government may not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. See Risk factors and special considerations Dollar-denominated investments risk.

Table of Contents

Foreign custody

Investment companies generally hold foreign securities and cash in foreign banks and securities depositories, and regulatory oversight over such entities may be limited. The laws of certain countries may put limits on a fund's ability to recover its assets if a foreign bank, depository or issuer of a security, or any of their agents, goes bankrupt. In addition, it is often more expensive for a fund to buy, sell and hold securities in certain foreign markets than in the United States.

BBVA Bancomer, SA (Bancomer), acts as the Fund's custodian, and S.D. Indeval, S.A. de C.V. (Indeval) acts as a securities depository for securities or equivalent book-entries in Mexico. It is the Investment Adviser's view that Bancomer and Indeval are stable financial institutions unlikely to be subject to the risks described herein. In addition, the Board of Directors reviews and evaluates the Fund's foreign custody arrangements on an annual basis. See Risk factors and special considerations Foreign custody.

Non-diversified status

The Fund is classified as a non-diversified management investment company under the 1940 Act, which means that the Fund is not limited by the 1940 Act as to the proportion of its assets that may be invested in the securities of a single issuer. As a non-diversified investment company, the Fund may invest a greater proportion of its assets in common stock of a smaller number of issuers and, as a result, will be subject to greater risk with respect to its portfolio securities. Although the Fund must diversify its holdings in order to be treated as a regulated investment company under the provisions of the Internal Revenue Code of 1986, as amended (Code), the Fund may be more susceptible to any single economic, political or regulatory occurrence than would be the case if it had elected to diversify its holdings sufficiently to be classified as a diversified management investment company under the 1940 Act. See Risk factors and special considerations Non-diversified status.

Tax considerations

A portion of the Fund's net assets is comprised of unrealized capital gains due to the investment performance of many of the Fund's portfolio holdings over the last several years. Such gains, when realized and distributed, will become taxable to stockholders. Furthermore, there can be no assurance that the investment performance giving rise to such unrealized gains will continue, or that such gains will, in fact, be realized.

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 affect our business and financial performance.

In order to protect our trademark, we registered our “DELTA” label as a trademark in the PRC on September 14, 2014. 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 9% of our total orders and the loss of our top customer would negatively affect our business.

Our top customer accounts for approximately 9% 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 26% 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 26% 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 Our New Tea Business

Our development and launch of the Mingyuntang stores will require a significant investment and commitment of resources, is subject to numerous risks and uncertainties, and ultimately may not prove successful.

We intend to invest significantly in the development and launch of our Mingyuntang brand tea beverage stores. Such endeavor involves significant risks and uncertainties, including distraction of management from our existing business in the chemicals industry, insufficient revenues to offset liabilities and expenses associated with developing, launching and growing the new line of business, inadequate return of capital on our investments, not accurately predicting consumer tastes and the market opportunity for tea stores, inability to respond in a timely manner to consumer desires and demands, and unidentified issues not discovered in our due diligence and planning. Because the introduction of and investment in a new line of business is inherently risky, no assurance can be given that the Mingyuntang brand will ultimately be successful or that it will not materially adversely affect our reputation, financial condition, and operating results.

Continued innovation and the successful development and timely launch of new products are critical to our financial results and achievement of our growth strategy.

Achievement of our growth strategy is dependent, among other things, on our ability to extend the product offerings of our Mingyuntang brand and introduce innovative new products, including new tea beverages or light foods. Although we devote significant focus to the development of new products, we may not be successful in developing innovative new products or our new products may not be commercially successful. Additionally, our new product introductions are often time sensitive, and thus failure to deliver innovations on schedule could be detrimental to our ability to successfully launch such new products, in addition to potentially harming our reputation and customer loyalty. Our financial results and our ability to maintain or improve our competitive position will depend on our ability to effectively gauge the direction of our key marketplaces and successfully identify, develop, manufacture, market and sell new or improved products in these changing marketplaces.

Due to the seasonality of many of our products and other factors such as adverse weather conditions, our operating results are subject to fluctuations.

Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year. The impact on sales volume and operating results due to the timing and extent of these factors can significantly impact our business. For these reasons, quarterly operating results should not be relied upon as indications of our future performance.

The sales of our products are influenced to some extent by weather conditions in the geographies in which we operate. Unusually cold weather during the winter months or unusually hot weather during the summer months may have a temporary decrease on the demand for some of our products and contribute to lower sales, which could have an adverse effect on our results of operations for such periods.

Changes in the beverage environment and retail landscape could impact our financial results.

The beverage environment is rapidly evolving as a result of, among other things, changes in consumer preferences; shifting consumer tastes and needs; changes in consumer lifestyles; and competitive product and pricing pressures. In addition, the beverage retail landscape is dynamic and constantly evolving, not only in emerging and developing marketplaces, where modern trade is growing at a faster pace than traditional trade outlets, but also in developed marketplaces, where discounters and value stores, as well as the volume of transactions through e-commerce, are growing at a rapid pace. If we are unable to successfully adapt to the rapidly changing environment and retail landscape, our share of sales, volume growth and overall financial results could be negatively affected.

Price increases may not be sufficient to offset cost increases and maintain profitability or may result in sales volume declines.

We may be able to pass some or all ingredient, energy and other input cost increases to customers by increasing the selling prices of our products or decreasing the size of our products; however, higher product prices or decreased product sizes may also result in a reduction in sales volume and/or consumption. If we are not able to increase our selling prices or reduce product sizes sufficiently to offset increased raw material, energy or other input costs, including packaging, direct labor, overhead and employee benefits, or if our sales volume decreases significantly, there could be a negative impact on our results of operations and financial condition.

Our long-term purchase commitments for certain strategic ingredients critical for the production of our products could impair our ability to be flexible in our business without penalty.

In order to ensure a continuous supply of high quality ingredients, some of our future inventory purchase obligations may include long-term purchase commitments for certain strategic raw materials critical for the manufacture of pods and appliances. The timing of these may not always coincide with the period in which we need the supplies to fulfill customer demand. This could lead to higher and more variable inventory levels and/or higher ingredient costs.

Investment in our new line of business could disrupt the Company's ongoing business and present risks not originally contemplated.

The Company will invest in its new tea business line, Mingyuntang. New ventures are inherently risky and may not be successful. In evaluating such endeavors, we are required to make difficult judgments regarding the value of business strategies, opportunities, technologies and other assets, and the risks and cost of potential liabilities. Furthermore, these investments involve certain other risks and uncertainties, including the risks involved with entering new competitive categories or regions, the difficulty in integrating the new business, the challenges in achieving strategic objectives and other benefits expected from our investment, the diversion of our attention and resources from our operations and other initiatives, the potential impairment of acquired assets and liabilities and the performance of underlying products, capabilities or technologies.

Our failure to accurately forecast customer demand for our products, or to quickly adjust to forecast changes, could adversely affect our business and financial results.

There is inherent risk in forecasting demand due to the uncertainties involved in assessing the current level of maturity of the tea and light foods component of our business. We will be setting target levels for the production of our beverages and foods in advance of customer orders based upon our forecasts of customer demand.

If our forecasts exceed demand, we could experience excess inventory in the short-term, excess manufacturing capacity in the short and long-term, and/or price decreases, all of which could impact our financial performance. In addition, we may be contractually bound to minimum purchase commitments over a period of time which exceed customer demand. Alternatively, if demand exceeds our forecasts significantly beyond our current production capacity, we may not be able to satisfy customer demand, which could result in a loss of market share if our competitors are able to meet customer demands. A failure to accurately predict the level of demand for our products could adversely affect our net revenues and net income.

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.

We are 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 urged 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 us 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 owner” 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 will similarly be affected.

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 prohibit 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 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;
- 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.

Delta

On September 14, 2018, 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 March 13, 2019, to regain compliance with the minimum closing bid price requirement for continued listing.

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, 2018 and we do not expect to be one for our taxable year ending June 30, 2019 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 12,660,314 ordinary shares (warrants for the purchase of 359,727 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.

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. Delta did not meet its performance targets for the fiscal years ended June 30, 2016 and June 30, 2017 and accordingly, the remaining 1,000,000 Earnout Payment Shares were retired.

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 agreement with the CIS Sponsor pursuant to which we were permitted to require the CIS Sponsor to sell to us up to 1,500,000 ordinary shares at a price of \$5.00 per share between the 360th and 390th after the closing date. To date, the Company has not exercised its call options under this agreement.

In connection with the Acquisition, we amended the 4,500,000 warrants owned by the CIS Sponsor to provide that such warrants may be redeemed in the event our ordinary shares trade at a price of \$17.50 per share for a period of ten consecutive trading days and that such warrants may not be exercised on a cashless basis.

Immediately after the closing, our Board of Directors consisted of five directors, composed of four nominees designated by Elite, of which one designees qualified as an independent director under the Exchange Act of 1934, as amended (the "Exchange Act"), and the rules of The NASDAQ Stock Market, and one nominee designated by us qualified as an independent director under the Exchange Act and the rules of The NASDAQ Stock Market. The parties to the stock purchase agreement entered into a mutually agreed upon voting agreement relating to nominees to our Board of Directors for a period of thirteen months following the closing.

We entered into a registration rights agreement with the CIS Sponsor and any other such parties with the rights to require us to register any of our securities held by such parties under the Securities Act of 1933, as amended, to terminate their demand registration rights and grant such parties piggyback registration rights.

Due to the short amount of time available before September 21, 2014, we did not conduct a tender offer to redeem publicly traded shares. Instead, we elected to redeem all holders of publicly traded shares that have not elected to convert their Series A Shares into Series C Shares, which was completed shortly after September 21, 2014.

As a result of the consummation of the Acquisition, Elite became our wholly subsidiary. Elite is the holding company of all the shares of Delta which, at the time of the consummation of the Acquisition, held all the equity interests in the operating subsidiaries in the PRC including Jiangsu Delta, Jiangsu Logistics, Jiangsu Zhengxin R&D and Binhai Deda.

Through Delta, we engaged in the business of producing and distributing organic compound including para-chlorotoluene (“PCT”), ortho-chlorotoluene (“OCT”), PCT/OCT downstream products, unsaturated polyester resin (“UPR”), maleic acid (“MA”) and other by-product chemicals. The end application markets of our products include automotive, pharmaceutical, agrochemical, dye & pigments, aerospace, ceramics, coating-printing, clean energy and food additives. We currently have approximately 186 employees, 30% of whom are highly-qualified experts and technical personnel. We serve nearly 110 clients in various industries.

Following the Acquisition, we changed our name from “CIS Acquisition Ltd.” to “Delta Technology Holdings Limited” to more accurately reflect our current business and operations.

Recent Developments

Environmental Policy Change

Since the second half of 2017, management has noticed that the national and local Chinese government agencies have continuously strengthened their environmental protection policies for industrial companies, especially so for companies in the chemicals industry. The strict regulation and restrictions on companies in the chemical industry has significantly hampered our production capabilities. The same applies to production and operations of downstream customers, which has caused a production shortage in the entire industry. The demand for the Company’s products has also reduced, and this has resulted in a significant reduction in our sales revenue during this fiscal year. At the same time, our profits have also fallen due to increased expenditures on complying with the new environmental protection regulations. Due to the current situation, the Company is unable to accurately predict the future policies and market direction. The Company began exploring the possibility of engaging in a new business as a result of the uncertainties surrounding the chemicals industry, and has discovered that tea beverages and light foods are currently very popular in the consumer market. Upon further research and investigation, the Company is now highly confident in the future of the tea beverages and light foods industry and has decided to pursue this new line of business.

New Line of Business

As previously disclosed on the Company's Current Report on Form 8-K as filed with the SEC on September 19, 2018, the Company entered into certain securities purchase agreement on September 18, 2018 (the "Private Placement") with certain non-affiliate "non-U.S. Persons" as defined in Regulation S of the Securities Act of 1933, as amended, pursuant to which the Company agreed to offer and sell 2,500,000 of its ordinary shares at a per share purchase price of \$0.55. Upon the closing of the Private Placement (the "Closing"), the net proceeds shall be used by the Company to begin its expansion into the tea beverages and light foods business.

On October 28, 2018, in anticipation of the Closing, the Company has entered into a series of VIE agreements between Shanghai MYT and Hunan MYT (the "VIE Agreements"), pursuant to which the Company is going to launch a tea shop chain under the brand Mingyuntang () in China as part of the Company's efforts to explore new business lines outside of its specialty chemical business. This business will be conducted via the Company's newly formed subsidiary, Shanghai MYT which controls Hunan MYT. Management expects to provide high-quality tea beverages via this new business unit.

The products of Mingyuntang are trendy tea drinks and light meals targeting China's new urban generation. The trendy tea drinks are developed based on the anhua black tea, which is famous in the Hunan province, including beverages such as fresh milk tea, fruit tea and milk cap tea. The light meals offered will include selections such as salads, sandwiches, pasta and other healthy options. All of the products at Mingyuntang will be focused on not only their taste but also their aesthetic presentation and health benefits.

With the anticipated funds from the Closing of the Private Placement, we plan to open 20 stores in 2019, with the first twenty to be opened in Hunan as the core market. We expect to add 40 new stores in 2020 and have a total of 120 stores across China by 2021.

B. Business overview.

Headquartered in Zhenjiang city, Jiangsu province, we are a fine and specialty chemical manufacturer, primarily engaged in manufacturing and selling of organic compound including para-chlorotoluene ("PCT"), ortho-chlorotoluene ("OCT"), PCT/OCT downstream products, and other by-product chemicals and distributing fine and specialty chemicals to end application markets including automotive, pharmaceutical, agrochemical, dye & pigments, aerospace, ceramics, coating-printing, clean energy and food additives.

We collaborate with reputable universities, such as the East China Normal University in order to secure our position as a market leader. We also closely monitor the market for development, trends and technological innovations and solicit customer feedback so as to keep abreast with market demands and industrial development.

As at the date of this report, we have a diversified clientele with more than 110 customers based either in domestic or overseas market. Approximately 95% of our sales are to domestic customers based in Jiangsu province, Anhui

province, Zhejiang province, Hubei province, Guangdong province and Chongqing Metropolitan, and the rest of its products are exported via distributors or trading companies to countries outside the PRC which include but not limited to India, Brazil, Japan, European Union member countries and America.

Our revenue for the fiscal years ended June 30, 2016, 2017 and 2018 were approximately \$53 million, \$56 million and \$39 million, respectively, and our loss before tax for the fiscal years ended June 30, 2016, 2017 and 2018 were \$7.6 million, \$28.4 million and 83 million, respectively. The decrease in revenue for the year ended June 30, 2018 was a result of decreased demand for our products in the PRC.

Our Subsidiaries

Elite Ride Limited

Elite owns 100% of the ordinary shares of Delta and was formed solely in contemplation of the Acquisition. It has not commenced any operations, has only nominal assets and has no liabilities or contingent liabilities, nor any outstanding commitments other than as set forth herein. Elite has not incurred any obligations, engaged in any business activities or entered into any agreements or arrangements with any third parties other than as set forth herein.

Delta

Delta, formerly China Deltachem Holdings Limited, was incorporated in Hong Kong as an investment holding company on June 17, 2010. Delta acquired Jiangsu Delta for a consideration of \$28.8 million pursuant to a sale and purchase agreement dated May 20, 2010 by and between Delta and Zhengxin International Investment Limited, a Hong Kong corporation (“Zhengxin International”) and currently holds the entire equity interest in Jiangsu Delta.

On May 26, 2011, Delta carried out a bonus share issue, whereby an additional 39,990,000 ordinary shares of Delta were allotted and issued as bonus shares at a price of HK\$1.00 each to all the then shareholders of Delta at the ratio in proportion to their existing shareholding percentage, and credited as fully paid up on a capitalization of the reserve of HK\$39,990,000 from the capital reserve of Delta. Subsequent to the bonus issue, Delta's total issued and paid-up share capital increased to HK\$40 million, comprising 40 million shares of HK\$1.00 each. After the bonus share issue, Delta was owned as to 39,104,000 shares by Mr. Yu Lan (97.76%), 448,000 shares by Mr. Shen Lei (1.12%) and 448,000 shares by Mr. Hong Yan (1.12%). On December 12, 2011, Mr. Yu Lan transferred all of his 39,104,000 shares in Delta to Mr. Xin Chao for a total consideration of HK\$67,102,464.

Delta entered into a series of Securities Purchase Agreements dated January 31, 2011, May 16, 2011 and June 30, 2011, respectively, with the funds managed by Korea Investment Partners Co. Ltd. and Kleiner, Perkins, Caufield & Byers (the "Noteholders"), pursuant to which it has issued convertible notes ("Convertible Notes") for an aggregate principal amount of US\$18 million. The Convertible Notes have a compound interest rate of 6.00% per annum if converted into shares and a compound interest rate at maturity of 15.00% if redeemed or liquidated. The principal and interests accrued on such Convertible Notes are convertible in whole or in part into the ordinary shares in Delta, on such terms and subject to the conditions of the Securities Purchase Agreements. On September 13, 2014, each of Mr. Xin Chao, Mr. Shen Lei and Mr. Hong Yan transferred all of their respective shareholdings in Delta to Elite. Elite became the sole shareholder of Delta after the transfer.

On September 15, 2014, Delta entered into a Settlement Deed with the Noteholders pursuant to which all of the outstanding obligations under Convertible Notes were settled. Pursuant to the Settlement Deed, Delta agreed to (i) cause Elite to issue an aggregate of 20,347 of its shares in consideration for the forgiveness of an aggregate of \$8,897,000 of the Convertible Notes due to the Noteholders, and (ii) cause Master Kingdom Holdings Ltd., a British Virgin Islands company ("Master Kingdom"), which is 100% owned by Mr. Xin Chao, the principal shareholder of Elite, to enter into a Novation Deed with each of the Noteholders with respect to the repayment of the balance of the Convertible Notes to the Noteholders. Accordingly, on September 18, 2014, Delta, Master Kingdom and the Noteholders entered in a Novation Deed pursuant to which Master Kingdom agreed to assume and repay the remaining indebtedness due to the Noteholders in the aggregate amount of \$19,322,981.28. As a result of the foregoing, Delta has no more Convertible Notes outstanding.

Jiangsu Delta

On June 15, 2007, Jiangsu Delta was established by S&S International Investment Holding (HK) Limited ("S&S International"), a Hong Kong based investment holding company, as a wholly foreign-owned enterprise (with an initial registered capital of US\$42 million, which was later reduced to US\$ 28.8 million) located in Zhenjiang city, Jiangsu province, the PRC.

Pursuant to a share transfer agreement entered into on April 13, 2008, Mr. Xin Chao acquired the entire equity interest in Jiangsu Delta from S&S International through Zhengxin International and became the controller of Jiangsu Delta since then. On May 21, 2008, the acquisition of Jiangsu Delta by Zhengxin International was approved by the Jiangsu Foreign Trade and Economic Cooperation Department in accordance with “The Approval of Alteration of Equities in and Amendment of the Articles of Association of Jiangsu Yantze River Delta Fine Chemical Co, Ltd.” issued by the same authority.

Jiangsu Delta commenced its commercial operations in 2009 with one production line and approximately 150 employees. It was primarily engaged in the manufacturing and production of fine chemicals such as OCT and PCT as well as their down-stream products with approximately 100 customers.

With a view to expanding its business and catering for the demand of its customers, in 2010, Jiangsu Delta’s principal business scope was expanded to be producing and selling a variety of fine chemicals such as (i) pharmaceutical, pesticide and dye intermediates (mainly including Cis-Anhydride, P-(O) Chlorotoluene, (2, 4 Dichlorotoluene)), (ii) unsaturated polyester resin, (iii) maleic acid and (iv) other by-products chemicals, all of which are mainly used in pharmaceutical and agriculture industries. In addition, during the same period, Jiangsu Delta installed additional production facilities to substantially increase its production capacity from 7,000 tonnes to 25,000 tonnes per annum.

Due to the corporate restructuring effort to consolidate the business of Jiangsu Delta under a pure investment holding entity, pursuant to a sale and purchase agreement dated May 20, 2010 between Zhengxin International and Delta, Jiangsu Delta was acquired by Zhengxing International for a consideration of US\$28.8 million.

On August 30, 2010, the acquisition of Jiangsu Delta by Delta was approved by the Jiangsu Foreign Trade and Economic Cooperation Department in accordance with “The Approval of Share Transfer of and Amendment of the Articles of Association of Jiangsu Chang San Jiao Chemical Co., Ltd.” issued by the same authority.

Binhai Deda

On June 8, 2013, Binhai Deda was established by Jiangsu Delta with an initial registered capital of RMB 5 million (approximately \$814,664) located in Binhai County, Yangcheng City, Jiangsu Province, PRC.

Delta Technology Holdings USA Inc

On May 22, 2018, we incorporated a wholly owned subsidiary Delta Technology Holdings USA Inc. (“Delta New York”) under the laws of state of New York. Delta New York is incorporated for the sole purpose of setting up bank account in New York. There has been no substantive operation since its inception.

Products

Our products presently fall within the PCT/OCT series as we have largely terminated production of unsaturated polyester resin (“UPR”) and maleic acid (“MA”) products. PCT/OCT together with its downstream products can be widely used in pharmaceuticals, pesticides, dyes and consumables manufacturing industries. In the fiscal year 2017, we sold approximately 80% of the PCT/OCT we produced and consumed the balance as raw materials for the manufacturing of PCT/OCT downstream products.

We place great emphasis on the research and development of our products to ensure our continued success. As of the date of this report, we have successfully registered nine patents in the PRC in relation to UPR production technologies, and PCT/OCT production technology, and environmental protection equipment technology, and we are also in the process of applying for four more patents in relation to PCT/OCT and MA productions technologies and

production of PCT/OCT environmental protection equipment.

We recently supplied an experimental sample of prothioconazole to a large pesticide manufacturer and trader in India. The Company views India as country with significant growth prospects for our products. At present, our experimental equipment can produce 500kg of prothioconazole per month. We plan to further expand the scale of lab production from medium to large-scale production and are working on the design of industrial mass production of prothioconazole which we anticipate starting in the second quarter of 2018. The Company is currently at the first stage of applying for relevant licenses and approvals from the government for such expansion. It has sent an invitation letter to Economic and Information Technology Commission of Zhenjiang City, inviting the examiners to visit the Company's factory in Zhenjiang and provide necessary initial approvals for the Company's application.

Production Process

We primarily engage in manufacturing and sale of organic compound including PCT, OCT and other by-product chemicals. Please see below the production flow diagrams for more details on how PCT/OCT products are manufactured by us.

The business operations model begins with the sourcing of raw materials, which are then delivered to us and stored in our warehouses until being processed in-house in our factory:

Purchase of Raw Materials

The major raw materials which we purchase include: toluene, chlorine, benzene, styrene and phthalic anhydride. Toluene and chlorine are the two major raw materials for the PCT/OCT production.

We source our raw materials from a spread of proximate suppliers, and use our own PCT/OCT production as raw materials for PCT/OCT downstream products. Most of our suppliers are located within the Yangtze River Delta region, and due to the hazardous nature of the raw materials, we are focused on the need for a short transportation time and safety measures.

PCT/OCT raw materials take about one week for delivery on request.

Delivery and Storage

About 90% of the raw materials we use are delivered to us by the suppliers, who insure and bear all risks until goods are delivered to our warehouses. The remainder raw materials are picked up by our employees.

We have on-site warehousing capacity, which allows us to store up to 6,000 tonnes of liquid or solid chemical materials.

Manufacturing and Processing

Manufacturing and processing occurs at our factory in Zhenjiang, which has an annual production capacity of 30,000 tons of PCT/OCT production and PCT/OCT downstream production. Please see below the production flow diagrams for the various products for more details on how PCT/OCT products are manufactured in our factory.

PCT/OCT

PCT/OCT forms the basic or intermediate products from which down-stream extended products can be further manufactured. Our annual capacity for PCT/OCT series is at 30,000 tons, and the factory operates at almost its maximum capacity presently. The simplified production process for the PCT/OCT products is as follows:

Step 1: Chlorination Process

Chlorine and Toluene, which form the basic reactants for the production of PCT/OCT, are delivered into the Chlorination Tower for a controlled reaction to take place in the presence of various catalysts. Depending on the temperature and the types of catalyst used, the reaction will produce a mixture of crude products with a certain isomeric ratio of PCT/OCT.

The exhaust is delivered to the Chlorination Tower, cooled and condensed before being treated for safe discharge. The crude product solution is then delivered into the Distillation Tower where the products are isolated and purified.

Step 2: Fractional Distillation

Within the Distillation Tower, the crude reactant product undergoes separation by way of fractional distillation and PCT and OCT are segregated based on their different boiling points, and separately delivered to a PCT Tower and an OCT Tower for storage or packaging as necessary.

Step 3: Further Processing

The isolated, purified compounds can then undergo further value-added treatment pursuant to customized treatments to manufacture down-stream derivative products. We re-process about 40% of the PCT/OCT products received through the manufacturing process into some 13 different downstream chemical products such as:

- (1) 2,4-Dichloro toluene (“2,4DCT”) 2,4
- (2) 3,4-Dichloro toluene (“3,4DCT”) 3,4
- (3) O-chlorobenzaldehyde
- (4) p-chlorobenzaldehyde

- (5) 2,4-Dichlorobenzaldehyde 2,4
- (6) O-chlorobenzyl chloride
- (7) Chlorobenzyl chloride
- (8) 2,4-Dichloro-chloride 2,4
- (9) O-chlorobenzoic acid
- (10) O-Chloro benzonitrile
- (11) Chlorobenzonitrile
- (12) 2,4-Dichlorobenzonitrile 2,4
- (13) 3,4-Dichlorobenzonitrile 3,4

Delivery or Pick-up by the Customers

We deliver around 90% of the products sold to the customer sites while customers pick up about 10% of the finished products directly from our warehouses. We usually use three transportation companies to truck the products to our customer sites. Delivery typically takes up to one week, although actual time will vary depending on the location of our customers.

Production Facilities, Capacity and Utilization

Our production facilities are located in Zhenjiang city, Jiangsu province, the PRC.

We have one main production line centered on our core products:

(a) Our PCT/OCT series production facility was designed by Tianjin University and built in 2008. It was first put into use in January 2009 and went through an expansion during 2011.

We no longer manufacture UPR and MA products. We may from time to time look into further expansion of our existing facilities to improve output capacity.

Quality Control

We are committed to providing our customers with quality and reliable products. Through our corporate quality management system, we are committed to ensuring that the products we produce are of high quality and are able to meet the expectations of our customers.

Our quality assurance department is currently comprised of 13 quality assurance personnel. They are responsible for overall quality control at every stage of our production process and ensure that it is in accordance with our quality control guidelines.

Quality Assurance and Safety Processes

We conduct quality checks on all the products manufactured and oversee the implementation of the quality controls at every stage of our production process in line with our quality management system. The following quality control procedures have been implemented:

(a) *Establishment of quality control standards*

For manufacturing of chemical systems and components and catalysts, we have set in place stringent quality control standards to implement strict measures for quality control in the manufacturing. Such standards follow strictly in accordance with the national and industry standards as well as the standards and guidance set in accordance with the ISO 9001 Quality System. We also take into account customers' specifications and requirements and quality feedback from our previous customers to supplement our quality control standards.

For our system design, we ensure the design of every project is carried out in line with (i) the relevant PRC laws and regulations; (ii) the relevant technical specifications and industry standards; and (iii) our customers' requirements.

(b) *Quality control during procurement*

Direct materials are purchased only from pre-selected suppliers after evaluation and testing by our procurement personnel, quality control personnel and production personnel based on stringent selection criteria such as quality of their raw materials and services, material sources, pricing, accreditations, track record, financial condition and market reputation.

Our quality assurance department will conduct random sample inspection upon receipt of the raw materials. Raw materials that do not meet our quality requirements are returned to the suppliers for them to remedy the problems or defects or for exchange. Procurement plans from the various suppliers are subject to review by our senior management on an annual basis.

(c) *Quality control during manufacturing process*

Quality guidelines are provided to the relevant production workers at each production stage before production commences.

Before the production, incoming direct materials are inspected by way of sampling by our quality control personnel to ensure that they are supplied by approved suppliers, and that the quality, grade and quantity of such direct materials conform to its specifications and requirements as well as our quality control standards. Direct materials which fail to comply with these specifications will be rejected.

We continuously monitor our manufacturing process and carry out sample-testing at systematic intervals throughout the process to ensure consistency in the quality of the chemical systems and components and catalysts. Our quality control personnel and production personnel conduct sample-testing and inspections at the various stages of production to ensure that defective semi-completed products do not proceed to the next stage of the production.

(d) *Quality control on finished products*

We conduct overall inspections and testing on finished products before they are dispatched to customers. We have implemented a strict sample-based testing system, which is carried out every batch of our finished products before they are arranged for packing. For OCT/PCT and MA products, the main criterion to be examined is its degree of purity, whereas for UPR products, the focus is on its shock-resistance and chromaticity. This final stage of inspection is carried out to ensure that the finished products that are packed and delivered conform to the exact specifications of our customers. We also provide after sales servicing, and will attend to complaints, if any, regarding defects in the products or the services.

To continually improve our quality management system, we will take into account the feedbacks from our employees who are involved in each of the quality control processes and feedbacks from these employees or our customers.

Certification and Awards

In recognition of our quality assurance efforts, we were awarded certification of GB/T19001-2008 idt ISO9001:2008 (quality management systems) by China Federation of Logistics Certification Center GB/T24001-2004/ISO14001:2004 (environmental management systems) by China Certification Centre Inc.

For the last three fiscal years and up to the date of this report, we have not experienced any material claims from our customers for defective or poor quality products, nor have we experienced any product liability claims from end users of our products. In addition, we have not experienced significant amount of return cases for our products over the same period.

Research and Development

We place great emphasis on research and development. Our research and development team is headed by our Chief Engineer Mr. Li Yiqiang and supported by about 18 research and development staff. Our research team members are required to have at least five years of experience in the research of fine chemical industry as well as a bachelor degree in chemistry or chemical engineering or other relevant professional qualifications. All the employees under our research and development department are required to execute confidentiality undertakings, which restrict them from revealing any trade secrets and/or know-how with regard to our products or technologies involved in our production process to our competitors for at least three years after termination of their employment.

In-house Research and Development Activities

Our in-house research and development activities focus mainly on:

(a) improving the quality of our end products so as to achieve certain special features, such as fire-resistance, shock-resistance, wear-resistance and anti-corrosive properties etc.;

(b) improving production techniques to cut down on production lead-time for efficiency and adopting automatic production process to reduce the chances of human mistakes and also make full use of the side products such as steam and heat energy to achieve the goal of zero waste;

(c) adopting environmentally production process to achieve zero-pollution; and

(d) developing and testing catalysts to increase production efficiency and purity.

Technology Collaborations

We collaborate with technology partners, comprising renowned universities and in the manner as follows:

In 2012, we entered into discussions for partnership arrangements with a group of professors from East China Normal University to develop a joint research and development center. The joint research center, under the name of “Delta Chemical Advanced Materials R&D Centre,” is located at our facilities in Zhenjiang, Jiangsu Province and is currently in operation.

Pursuant to the collaborative arrangement, the university and we each contribute around three to five research staff to carry out the research and development operations of the joint research center.

The joint research center is equipped with world-class chemical research facilities and product testing equipment. Its research focus will be placed on development of the following products:

- (a) new PCT/OCT downstream products, such as pharmaceutical bulk drug; and
- (b) directional catalyst to be used in PCT/OCT production process.

Sales and Marketing

Our sales and marketing department is headed by our Deputy General Manager, Mr Shi Weiping, who has been involved in the chemical industry since 1989 and has experience of approximately 25 years in the industry in relation to the sales and marketing of chemical products. Mr. Shi is currently supported by seven sales and marketing personnel who are in charge of the sales for PCT/OCT and they are dedicated to sales and marketing activities in various areas, ranging from southern, northern and eastern China regions as well as overseas market.

Our sales and marketing department is responsible for the sales and marketing functions of the Company, and its key roles and responsibilities include sourcing for new customers, confirming and collating orders from customers, providing after-sales service, maintaining customer relationships, and ensuring timely payments and delivery of goods/services.

Our sales personnel keep in touch with our customers by paying regular visits to them to understand their needs, business development and market policies and to obtain their feedback and suggestions. Following the customer visits, our sales personnel will report to Mr. Shi on a daily basis.

Our sales and marketing department is also tasked with formulating and planning our marketing strategies and activities which primarily include the following specific marketing activities:

Direct Sales and Marketing

Direct sales and marketing activities involve regular meetings with and frequent visits to new and existing customers. Through such interactions, we are able to promote our products, obtain feedback on our products, and understand our customers' demands based on the latest developments and trends relating to the chemical industry. In addition, we may engage in discussions with our customers relating to new chemical products in the market and to explore opportunities for business collaboration. This will allow us to better understand and serve our customers.

Further, our sales and marketing department cooperates with other departments to put in place an effective and systematic procedure for direct sales, arrange promotional activities and to collate customer data and feedback. We provide our sales and marketing employees with necessary training to familiarize them with the sales and marketing practices in the industry and how to promote awareness for our brand. These employees are also rewarded with incentive remuneration package linked to their sales performance.

Advertisements, Publications and Participation in Industrial Conferences

We have a diversified customer base with more than 110 customers in China and countries such as India, Brazil, Japan, European Union member countries and America. Due to our diversified clientele, our sales and marketing efforts are conducted through a variety of channels, including but not limited to websites, billboards and brochures. We also participated in various regional and international seminars and exhibitions to showcase and promote our products, create and enhance market awareness of our brand and products, gain market updates and industry knowledge, establish networks with customers and suppliers, keep abreast of the latest technology and identify latest trends. We have annually, since our establishment, participated in related industrial conferences held in the PRC, such as China International Pharmaceuticals Exhibition, China International Fine Chemicals Exhibition and China Import and Export Fair.

Awards and Certificates

As an endorsement of the quality of our products and services, we have been conferred, *inter alia*, the following awards or certificates:

Award/ Certification	Awarding Authority	Year
Municipal Key Project Completion Award	Zhenjiang City Major Project Office	2008

Credit Rating AAA	Credit Rating Agency Recognised by the Nanjing Branch Office of The People's Bank of China: Jiangsu Yuandong International Rating and Consulting Co., Ltd	2010
Advanced Enterprise of Utilizing Foreign Capitals	People's Government of Gao Zi Town, Dantu Economic Development Zone	2011
Outstanding Unit	Transparent and Democratic Factory Operations Management Team of Zhenjiang City	2011
Credit Rating Certificate of AAA	United Credit Management Limited Company Jiangsu Branch	2011
Certificate for Vice President Unit	Precursor Chemicals Industry Association of Zhenjiang City	2012
GB/T19001-2008 ISO9001:2008	China Federation of Logistics Certification Center	2012
Outstanding Tax Contribution Unit	CPC Working Committee of Gao Zi Sub-District & CPC Working Committee of Dantu Economic Development Zone	2012
GB/T24001-2004/ISO14001:2004	Hua Xia Certification Centre Inc.	2012
Environmental Management System Certificate	Administration of Work Safety of Zhenjiang City, Jiangsu Province	2013
Production Safety Standards: Level Three Enterprise		
GB/T24001-2004/ISO14001:2004	Beijing Zhongjing Quality Certification Center	2015
Environmental Management System Certification		

Intellectual Property

Patents

As of the date of this report, the status of our patents and the patent applications in the PRC is as follows:

Patents Granted

Patent Number	Description	Patentee	Date of Application	Date of Grant	Expiry Date
ZL201120123193.1	Efficient resin heater for the purposes of improving UPR production process	Jiangsu Delta	April 18, 2011	November 16, 2011	April 18, 2021
ZL201120123195.0	Recovery hot and cold container in one for the purposes of improving UPR production process	Jiangsu Delta	April 18, 2011	November 16, 2011	April 18, 2021
ZL201120316710.7	Efficient resin stirrer for the purposes of improving UPR production process	Jiangsu Delta	August 26, 2011	June 13, 2012	August 26, 2021
ZL201420088028.0	A toluene chlorination tail gas gas-liquid separation tank	Jiangsu Delta	February 28, 2014	August 13, 2013	February 28, 2024
ZL201420091459.2	A kind of industrial wastewater desalting flash tank device	Jiangsu Delta	February 28, 2014	August 13, 2014	February 28, 2024
ZL201210558267.3	Chlorobenzyl chloride continuous distillation system in relation to OCT production process	Jiangsu Delta	December 20, 2012	December 10, 2014	December 20, 2032
ZL201420292343.5	A kind of maleic anhydride crude anhydride tank	Jiangsu Delta	June 3, 2014	November 12, 2014	June 3, 2024
ZL201420088028.0	A toluene chlorination exhaust gas-liquid separation tank	Jiangsu Delta	February 28, 2014	August 13, 2014	February 28, 2024
ZL201420091625.9	A kind of exhaust gas absorber that absorbs toluene chlorination	Jiangsu Delta	February 28, 2014	October 1, 2014	February 28, 2024

Patents Pending

Application No.	Application Number	Description	Patent Applicant	Application Date	Status
1.	201110451557.3	High pressure FRP pipe resin for oilfield	Jiangsu Delta	December 29, 2011	Pending
2.	201110451717.4	New model of UPR for quartz tub	Jiangsu Delta	December 29, 2011	Pending
3.	201210541517.2	Waste water desalination technology to be used for wastewater disposal during the production process of PCT/OCT, MA and UPR	Jiangsu Delta	December 14, 2012	Pending
4.	201210541010.7	Efficient utilization of excess heat energy generated from steam exhaust systems resulting from PCT/OCT and MA productions	Jiangsu Delta	December 14, 2012	Pending

process

Trademarks

As of the date of this report, we have registered the following two trademarks:

Trademark	Class ⁽¹⁾	Application Number	Validity Period	Place of Registration
	1	12218845	September 14, 2014 – September 13, 2024	The PRC
	1	12218774	September 14, 2014 – September 13, 2024	The PRC

(1) Class 1 refers to Chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; manures; fire extinguishing compositions; tempering and soldering preparations; chemical substances for preserving foodstuffs; tanning substances; adhesives used in industry.

Seasonality

We generally do not experience any seasonality in our business. We only experience a slight decrease in the number of orders for our products during festive seasons, in particular, the Chinese New Year, as many of the factories of our customers may be closed.

Staff Training

We recognize that our employees are an important resource and we thus aim to equip our staff with the relevant skills and knowledge which will enable them to perform their jobs effectively. We have implemented comprehensive training policies and programs aimed specifically at improving the skill sets of our staff and increasing our competitiveness and productivity. Our human resource department oversees our staff training programs.

We conduct training programs for all levels of our staff, including those holding management and supervisory positions. In recognition of staff with potential, we also conduct training programs to upgrade their skills. Such upgrading programs are conducted on a periodic basis and tailored in accordance with the specific requirements of each department. Our internal training programs include:

(a) General Training

We conduct orientation programs for our new employees during which they are provided with information on the Company, including our history, enterprise culture, business concept and employment rules. They are required to undergo operational training sessions so as to familiarize themselves with our operational procedures, policies and practices.

Occasionally, we will invite external professionals or instructors to conduct seminars and talks for employees and management of relevant departments in relation to their respective scope of work.

(b) Production and Manufacturing Staff

Our staff involved in the manufacturing and production processes are required to undergo in-house operational training sessions so as to familiarize themselves with our operational procedures, policies and practices. The production managers and engineers at our production facility periodically update and educate our production staff on matters relating to our production techniques and processes, including compliance with the assurance procedures required under GB/T19001-2008 idt ISO9001:2008 (quality management systems) and other environmental management and quality assurance procedures such as the GB/T24001-2004/ISO14001:2004 requirements.

Upon completion of the various training programs, our staff will sit for examinations which may be conducted orally or by written tests. For new employees, upon passing the examinations and tests, they will undergo on-the-job training

during which they will learn the specific skills which are relevant for their respective positions. They will only commence work in their respective positions if they have been assessed to be fit for deployment.

(c) Sales and Marketing Staff

Our sales and marketing staff were trained on information relating to our products, including, *inter alia*, our products' qualities, characteristics and their applications. They are also constantly updated on market information and market demand of our products.

We recognize the importance of training our staff and developing their skills, as our success is largely dependent on the quality and skills of our staff. It is our policy to maintain a competent work force and we are committed to providing training to our staff, in order for us to remain competitive and meet the increasing market demand for high quality products. As our staff training is mainly conducted in-house, our training expenses in the last three fiscal years have not been significant.

Insurance

We have in place the following insurance policies:

(a) Social Insurance

We have in place social insurance for employees of Jiangsu Delta, including fundamental pension insurance and fundamental medical insurance, unemployment insurance, work-related insurance and maternity insurance in respect of which the insurance premium is borne by us and the employees in a specific proportion governed by the relevant PRC regulations.

Jiangsu Delta has obtained the Social Insurance Registration Certificate issued by the Social Labor Insurance Fund Management Centre of Dantu, Zhenjiang on June 23, 2010 which will expire on October 30, 2020.

According to the relevant PRC laws and local regulations in respect of social insurance contribution, Jiangsu Delta pays social insurance premiums for employees according to the following rate:

Type	Rate			
	Enterprise		Individual	
Fundamental Medical Insurance	9 %	2.5 %		
Fundamental Pension Insurance	21 %	8 %		
Unemployment Insurance	2 %	1 %		
Work-related Injury Insurance	1.8 %	-		
Maternity Insurance	0.6 %	-		

To our best knowledge, Jiangsu Delta has since its establishment handled the fundamental medical insurance, fundamental pension insurance, unemployment insurance, work-related Injury insurance and maternity insurance for employees according to relevant laws and regulations in the PRC, and it does not have any overdue payments and had been in compliance with applicable PRC social insurance laws and regulations as of the date of this report.

(b) Property Insurance

We have all property all-risks insurance for our machinery and equipment including machineries, and facilities against damage caused by certain accidents and natural disasters such as fire.

(c) Motor Vehicle Insurance

We purchase and maintain compulsory traffic accident liability insurance for all company-owned motor vehicles.

(d) Insurance for employers' liability.

We also purchase insurance for employer's liability.

All insurance coverage is obtained at market rates from independent insurance companies.

Major Suppliers

The key components and raw materials used in our production and manufacturing processes are comprised mainly of toluene, chlorine, benzene, styrene and phthalic anhydride, maleic anhydride, propylene glycol and ethylene diglycol which in the aggregate constituted approximately 75% of our total cost of sales.

Our suppliers are carefully selected by our purchasing department, and are assessed on criteria such as the geographical location, quality of materials supplied, length of business relationship with us, as well as their reputation, pricing, reliability, track record, service, punctuality and response time. To facilitate timely purchases of materials, we keep a list of qualified suppliers who have demonstrated reliability in product quality and delivery time as well as pricing competitiveness. This list is subject to review by our management on an annual basis.

Our raw materials are currently sourced from within the PRC and therefore, all of our purchases are transacted in RMB. Accordingly, we are not subjected to any significant risk in exchange rates fluctuation in the purchase of raw materials.

We do not any have long-term arrangements with our other major suppliers.

The major suppliers accounting for 5% or more of our cost of sales for each the last three fiscal years ended June 30, 2016, 2017 and 2018 are as follows:

Suppliers	FY2018		FY2017		FY2016
Supplier A	0.00	%	33.77	%	36.93 %
Supplier B	11.47	%	37.93	%	12.94 %
Supplier C	0.00	%	0.00	%	12.05 %
Supplier D	0.00	%	21.09	%	3.03 %
Supplier E	25.70	%	0.43	%	0.23 %
Supplier F	18.60	%	0.00	%	0.00 %

Most of materials are mass chemical products, prices of which are quite transparent. However, due to limited purchase volume, we are not able to buy products directly through major international chemical suppliers. Except for Sinopec, we procure our materials through chemical wholesalers, such as Southern Petrochemical Group. We may switch our suppliers from one to another depending on the commercial terms agreed upon. As a result, some suppliers in previous years did not further sell their products to us during recent years. The percentage of purchase is also varied from year to year.

Our business or profitability is not materially dependent on any single supplier. We do not consider ourselves materially dependent on any single abovementioned supplier as we believe that there are other qualified suppliers that we are able to work with should any of these suppliers provide unacceptable or uncompetitive terms.

As of the date of this report, we are not aware of any information or arrangement, which would lead to a cessation or termination of our relationships with any of our current major suppliers

Major Customers

Our customers are mainly from the chemical industry in the PRC. As of the date of this report, we have a customer base of approximately 110 different customers (of which certain customers belong to the same group of companies) across 8 provinces in the PRC.

The major customers accounting for 5% or more of our total revenue for the last three fiscal years ended June 30, 2018, 2017, and 2016 are as follows:

Customer	FY2018		FY2017		FY2016	
Customer A	6.99	%	11.22	%	6.46	%
Customer B	0.00	%	4.13	%	11.61	%
Customer C	0.00	%	15.21	%	20.83	%
Customer D	0.00	%	5.83	%	29.52	%
Customer E	8.91	%	0.00	%	0.00	%

Except materials sales' customers, our customer base is diversified. For the past three fiscal years, we have generally reduced our reliance on each of our major customers, whose purchases as a percentage of our total revenue has shown a declining trend. This is a result of increased sales volume to a more diversified customer base and an increase in the number of products we produce.

As at the date of this report, we do not have any long-term arrangement or arrangements with any of our major customers and our business or profitability is not materially dependent on any single customer. As of the date of this report, we are not aware of any information or arrangement, which would lead to a cessation or termination of our relationships with any of our current major customers.

Competition

Although the barriers to entry in this industry are relatively high in terms of capital investment and the manufacturing expertise required, we operate in a competitive environment. Our competitors are located in the Yangtze River Delta region of China, especially in Jiangsu province where we are located.

Our management believes that the demand for our products is increasing, both within and outside the PRC. Our management considers, amongst others, the following to be our main competitors as we compete with them in at least one of the categories of the products sold by us:

Name	Place of Origin
Danyang Zhongchao Chemical Co., Ltd.	Danyang City, Jiangsu Province
Jiangsu Zhenfang Chemical Co., Ltd.	Huai' An City, Jiangsu Province
Jiangsu Lianhua Technology Co., Ltd.	Xiangshui City, Jiangsu Province

We believe that improving our production efficiency and seizing market opportunities will consolidate our market position and market share in the industry. We believe that our record for quality products and reputation for good service have gained the confidence of our customers.

Environmental Protection and Corporate Social Responsibilities

We have always been committed to adopting an environmentally friendly business model.

We have obtained all of the environmental permits and approvals necessary to conduct our business, including those for our production facilities, such as Dangerous Chemical Operation Permit, Pollutant Discharge Permit, etc. In addition, we were granted an Environmental Management System Certificate by China Certification Centre Inc. on July 6, 2012 which certifies that the environmental management system adopted by Jiangsu Delta during its manufacturing process is in line with the standards of GB/T24001-2004/ISO 14001:2004.

Apart from complying with all the relevant environmental laws and regulations, we have gone a step further in order to minimize our impact on the environment by undertaking a wide range of self-initiated measures to build a greener future.

Our manufacturing processes generate noise, wastewater, gaseous wastes and other industrial wastes. However, we have devoted efforts to reduce such wastes to acceptable levels under applicable regulations. We have installed various types of anti-pollution equipment in our facilities to reduce, treat, and where feasible, recycle the waste generated in our manufacturing process. Our operations are subject to regulation and periodic monitoring by local environmental protection authorities. We are currently in compliance with all applicable environmental laws and have not breached any applicable environmental laws or regulations since our establishment.

Our current water treatment system has been awarded pioneer status with regard to the water treatment technology applied in our industry in the PRC. Our system allows us to recycle almost the entire portion of the waste water produced in our production, resulting in significant cost savings in our utilities expenses and also improved our environmental friendliness through a reduction in waste water production and disposal.

As a testimony to our continued efforts to achieve zero-pollution, we have a dedicated team of in-house researchers engaging in research and development activities focusing mainly on, *inter alia*, making full use of the by-products such as waste water generated during our production process to attain the goal of zero waste generation.

In order to ensure that we comply with the relevant PRC environmental laws and regulations, we have appointed specialized personnel to oversee environmental protection related matters within the Company. As a responsible corporate entity, we have committed to ensure that we comply with all the applicable PRC environmental laws and regulations in the future by (i) providing regular training upon the promulgation of new environmental laws and regulations with respect to the latest PRC environmental laws and regulations and encouraging our team staff to attend environmental protection training sessions organized by the local environmental protection authorities, (ii) conducting on-site inspections regularly, (iii) providing relevant training to our employees regarding compliance with PRC environmental laws and regulations in general, (iv) providing timely reports to the directors any incident or non-compliance with the relevant PRC environmental laws and regulations and (v) providing timely reports to and coordinating with competent authorities in the case that any incident or non-compliance arises.

Licenses, Permits and Government Regulations

PRC Laws and Regulations Relating to Our Business

Generally, the fine chemical industry is subject to stringent environmental protection, health and safety laws and regulation in the PRC. We have identified the main laws and regulations that affect our operations and the relevant regulatory bodies.

PRC Legal System

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs and civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

Judicial System

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution and the Law of Organization of the People's Courts of the PRC, the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.

The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding if no appeals are made before they take effect. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (the "Civil Procedure Law") adopted on April 9, 1991 and amended on October 28, 200 and August 31, 2012. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the

jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. The time limit on the right to apply for such enforcement is two years.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognized and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (the “Arbitration Law”) was promulgated by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people’s court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people’s court for enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognized as such for the purposes of the PRC laws, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award (the “New York Convention”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognize and enforce foreign arbitral awards on the principle of reciprocity; and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

Foreign Exchange Control

Prior to 31 December 1993, enterprises in the PRC requiring foreign currency were required to obtain approval from the State Planning Committee and the Ministry of Foreign Trade and Economic Cooperation before it could convert RMB into foreign currency, and such conversion had to be effected at the official rate prescribed by the State Administration of Foreign Exchange (“SAFE”). RMB reserved by Foreign Investment Enterprises (“FIEs”) could also be converted into foreign currency at swap centers with the prior examination and verification by SAFE. The exchange rates used by swap centers were largely determined by the supply of and demand for foreign currencies and RMB.

On December 28, 1993, the People’s Bank of China (“PBOC”) announced that the dual exchange rate system for RMB against foreign currencies would be abolished with effect from January 1, 1994 and be replaced by the unified exchange rate system. Under the new system, the PBOC publishes the RMB exchange rate against the United States dollar daily. The daily exchange rate is set by reference to the RMB/US\$ trading price on the previous day on the “inter-bank foreign exchange market”.

On April 1, 1996, the Foreign Exchange Control Regulations of the PRC (as amended on January 14, 1997) came into effect. On 20 June 1996, the Regulations on Sale and Purchase of and Payment in Foreign Exchange were promulgated by the People’s Bank of China and came into effect on 1 July 1996.

On October 25, 1998, the PBOC and SAFE issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from December 1, 1998, foreign exchange transactions for FIEs may only be conducted at designated banks.

On October 21, 2005, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (“Notice 75”) which came into effect on November 1, 2005. Under Notice 75, PRC residents, including PRC Companies and PRC resident individuals, have to register their foreign investments with the local SAFE prior to incorporating or taking control of a special purpose vehicle (the “SPV”). Where a PRC resident contributes the assets or stock rights of a domestic enterprise that it owns into a SPV, or engages in capital financing abroad after contributing assets or stock rights into the SPV, it has to register such change. Other than the abovementioned registration requirement, Notice 75 also requires PRC residents to register, modify or record with the local foreign exchange authority within 30 days from the date of increase/decrease of capital, share transfer, mergers or division, change in long term equity or debt investments and guarantees in or by the SPV. In addition, the proceeds from overseas listing of the SPV shall, according to the repatriation plan submitted to the foreign exchange administration for record, be repatriated according to current regulations for the administration of foreign exchange. In addition, the foreign exchange income from profits, bonus and capital change obtained by the PRC residents from the SPV shall be repatriated within 180 days.

On August 12, 2007, SAFE promulgated the Notice on the Retaining of Foreign Exchange Earnings by Domestic Entity, which provides that from August 12, 2007, domestic entity may retain its recurrent foreign exchange earnings according to their needs for operation.

On August 1, 2008, the revised Foreign Exchange Control Regulations of the PRC was adopted by the State Council and was promulgated for implementation on August 5, 2008. In summary, taking into account the promulgation of the recent new regulations and to the extent the existing provisions stipulated in previous regulations do not contradict these new regulations, the present position under the PRC law relating to foreign exchange control are as follows:

The previous dual exchange rate system for RMB was abolished and a managed floating exchange rate system based largely on supply and demand with reference to a basket of currencies was introduced. The People’s Bank of (a) China, will announce the closing price of foreign currencies against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for trading against the RMB on the following working day.

(b) Foreign exchange earnings of domestic entities may be transferred to China or held abroad according to the regulations stipulated by SAFE.

FIEs may have their own foreign currency accounts and are also permitted to retain their recurrent exchange (c) earnings according to their needs of operation and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks.

Reservation or sale of capital account foreign exchange earnings to designated banks shall be approved by the (d) foreign exchange control administration unless stated otherwise. Foreign exchange funds from capital account shall only be used according to the purpose approved by the foreign exchange control administration and the relevant competent authorities.

Where a foreign enterprise makes a direct investment or carries out the issuance and/or business of securities or other derivatives within the PRC, or where a domestic entity makes a direct investment or carries out the issuance and/or business of securities or other derivatives outside the PRC, it shall go through the registration procedure (e) according to the relevant regulations stipulated by SAFE. A guarantee or a commercial loan provided to the entity outside the PRC by a domestic entity shall be subject to approval and registration with relevant foreign exchange administration. The utilization of foreign debts by an enterprise shall be in compliance with relevant regulations and has to undergo foreign debt registration with the foreign exchange control administration.

FIEs which require foreign exchange for their ordinary trading activities such as trade services and payment of (f) interest on foreign debts may purchase foreign exchange from designated foreign exchange banks if the application is supported by proper payment notices or supporting documents.

FIEs may require foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as distributing profits to their foreign investors. They can withdraw funds from their foreign exchange bank accounts kept with designated foreign exchange banks, subject to the due payment of tax on (g) dividends. Where the amount of the funds in foreign exchange is insufficient, the FIE may, upon the presentation of the resolutions of the directors on the profit distribution plan and other relevant documents, purchase foreign exchange from designated foreign exchange banks.

(h) FIEs may apply to the Bank of China or other designated foreign exchange banks to remit profit out of the PRC to the foreign parties if the requirements provided by the PRC laws, rules and regulations are met.

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.

In addition, according to the SAFE Circular No. 37, a PRC Resident that participates in an employee share incentive plan of a non-listed Offshore SPV could, by submitting required documents, apply for registration with the local SAFE branch before exercising stock options.

Strict supervision and control by foreign exchange control administration has been imposed upon FIEs established in the manner of acquisitions of the PRC enterprises by foreign enterprises with PRC residents as shareholders.

Taxation

Income Tax

The New Income Tax Law was promulgated by NPC on March 16, 2007 and came into effect on January 1, 2008. The Chinese domestic enterprises and FIEs are treated equally on the income tax rate, and the enterprise income tax rate shall be 25%. In accordance with the New Income Tax Law and its implementing regulations, the non-resident enterprise which has not set up institutions or establishments in China, or has set up institutions or establishments but the income has no relationship with such institutions or establishments, it shall pay enterprise income tax on such income sourced from China, and the income tax rate shall be 20%, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specially exempted from tax under the applicable tax laws, regulations, notices and decisions which relate to FIEs and their investors.

The enterprises that were approved and established prior to the promulgation hereof and that, in accordance with the effective tax laws and administrative regulations, enjoy a special lower tax rate shall, in accordance with the provisions of the State Council, progressively transit to the tax rate specified herein within 5 years following the implementation hereof. Those enterprises that enjoy a fixed-term tax exemption or tax reduction shall, in accordance with the provisions of the State Council, continue to enjoy such exemption or reduction after the implementation hereof until the expiration of the term of such exemption or reduction. However, if an enterprise did not enjoy such preferential treatment because it has not yet achieved profitability, the term of such preferential treatment shall be calculated from 1 January 2008 until the expiration of the term of such exemption or reduction.

According to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise (Circular Guoshuihan [2009] No. 698) implemented on January 1, 2008, except for the purchase and sale of equity through a public securities market, where a foreign corporate investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (the “Indirect Transfer”) located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5%, or (ii) does not tax its residents on their foreign income, the foreign corporate investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. In this case, the PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the Indirect Transfer without reasonable commercial purpose and in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company that is used for tax planning purpose and re-characterize the Indirect Transfer. As a result, gains derived from such Indirect Transfer by the foreign investor may be subject to the EIT Law.

Value-Added Tax

Pursuant to the Provisional Regulations on Value-added Tax of PRC, last amended on November 5, 2008 and took effect from January 1, 2009, and its implementation rules which were revised on December 15, 2008 and took effect from January 1, 2009, all entities or individuals in PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the import of goods are required to pay value-added tax (“VAT”). The amount of VAT payable in the sale or import of goods except as otherwise provided by paragraph (2) and paragraph (3) of Article 2 of the Provisional Regulations on Value-added Tax of PRC. The tax rate is also 17% for those providing processing services repairs and replacement services.

In November 2011, the Ministry of Finance (“MOF”) and the State Administration of Tax (“SAT”) promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (the “Pilot Plan”). Since January 1, 2012, the PRC government has been implementing a pilot program in certain provinces and municipalities, to levy a 6% VAT on revenue generated from certain kinds of services in lieu of the 5% business tax. According to the Notice Regarding the Nationwide Implementation of B2V Transformation Pilot Program in respect of Transportation and Certain Modern Service Industries jointly issued by the MOF and SAT effective from August 1, 2013 (the “B2V Circular 37”), such policy has been implemented nationwide. In addition, the MOF and SAT released the Notice on Including Railway Transportation and Postal Services Sectors into the Pilot Scheme on Switching from Business Tax to VAT on December 12, 2013, which further expanded the scope of taxable services for value-added tax and replaced the B2V Circular 37 as of January 1, 2014.

Business Tax

Pursuant to the Interim Regulation of the People’s Republic of China on Business Tax (“Business Tax Regulation”) last amended on November 10, 2008 and took effect from 1 January, 2009, business that provide services (including

entertainment business), assign intangible assets or sell immovable property became liable to business tax at a rate ranging from 3% to 20% of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

Tax on Dividends from PRC Enterprise with Foreign Investment

According to the New Income Tax Law and the Implementation Rules, income such as dividends and profits distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 10% withholding tax, subject to reduction as provided by any applicable double taxation treaty.

Stamp Duty

Under the PRC Interim Regulations on Stamp Duty promulgated by the State Council on August 6, 1988 and amended in January 6, 2011, for building property transfer instruments, including those in respect of property ownership transfer, the duty rate shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including real estate title certificates and land use right certificates, stamp duty shall be levied on an item basis at an annual rate of RMB5 per item.

Urban Maintenance Tax

Under the PRC Interim Regulations on Urban Maintenance Tax promulgated by the State Council on February 8, 1985 and amended on January 8, 2011, any taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall be required to pay urban maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county and a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge promulgated by the State Council on April 28, 1986 (last amended by the State Council on August 20, 2005), any taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas. Education surcharge shall be calculated and levied at a rate of 1% on the actual amount of product tax, value-added tax and business tax paid by the taxpayer.

According to the Circular on Issues Concerning Policies on Unifying Local Education Surtax promulgated by ministry of finance on November 17, 2010, the rate at which local education surtax is levied should be 2% of the value-added tax, the business tax or the consumption tax actually paid by entities and individuals (including foreign-invested enterprises, foreign enterprises and foreign individuals).

Wholly Foreign-Owned Enterprise

WFOE is governed by the Law of the People's Republic of China Concerning Enterprises with Sole Foreign Investments, which was promulgated on April 12, 1986 and was subsequently amended on October 31, 2000, and its Implementation Regulations promulgated on December 12, 1990 and was subsequently amended on April 12, 2001 (together the "Foreign Enterprises Law").

Procedures for Establishment of a WFOE

The establishment of a WFOE will have to be approved by Ministry of Commerce (or its delegated authorities) (the "MOC"). If two or more foreign investors jointly apply for the establishment of a WFOE, a copy of the contract between the parties must also be submitted to MOC (or its delegated authorities) for its record. A WFOE must also obtain a business license from the State Administration of Industry and Commerce (or its delegated authorities) before it can commence business.

Nature

A WFOE is a limited liability company under the Foreign Enterprise Law. It is a legal entity which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. The foreign investor may make its contributions by installments and the registered capital must be contributed within the period as approved by the MOC (or its delegated authorities) in accordance with relevant regulations.

Profit Distribution

The Foreign Enterprise Law provides that after payment of taxes, a WFOE must make contributions to a reserve fund and at least 10% of the after-tax profits must be allocated to the reserve fund. If the accumulative amount of allocated reserve funds reaches 50% of an enterprise's registered capital, the WFOE will not be required to make any additional contribution. The WFOE is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

In accordance with the Notice of the Ministry of Finance on the Issue of Handling Financial Issues by Relevant Enterprises after the Implementation of the Company Law promulgated by the Ministry of Finance on March 15, 2006 and effective April 1, 2006, from January 1, 2006 on, enterprises established in accordance with the Company Law shall distribute profits pursuant to Article 167 of the Company Law and shall no longer make contributions to the reserve fund. After an enterprise ceases to make contributions to the reserve fund, it may continue to make contributions to the employee bonus and welfare fund as decided by the board of directors if the purpose, use conditions, and procedures thereof shall be made clear, and such funds shall be manage as debts.

Company Law

The establishment and operation of corporate entities in China is governed by the PRC Company Law, which was promulgated by the Standing Committee of the NPC on December 29, 1993 and became effective on July 1, 1994 ("1993 PRC Company Law"). It was subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013.

The PRC Company Law generally governs 2 types of companies — limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liabilities of shareholders of a limited liability company are limited to the amount of registered capital they have contributed.

The amendments to the PRC Company Law adopted in October 2005 seek to reform various aspects of the 1993 PRC Company Law and simplify the establishment and operation of companies incorporated in China by lowering capitalization requirements, increasing shareholder and creditor protection, improving corporate governance, and relaxing rules regarding the establishment of subsidiaries. Further, the restriction relating to the total investment of a company in other entities exceeding 50% of its net assets has been removed, the incorporation of one shareholder limited liability companies in addition to wholly State-owned enterprises is permitted, and the Chinese Company Law shall apply to foreign invested limited liability companies. Where laws on foreign investment have other stipulations,

such stipulations shall apply.

The amendments to the PRC Company Law adopted in December 2013 took effect on March 1, 2014. These amendments cover three aspects: (a) replacing the paid-up capital registration system by subscribed capital registration system; (b) relaxing the requirements for registered capital registration; and (c) streamlining the registration items and requirements for registration documents.

PRC Laws and Regulations Relating to Foreign Investment

On October 31, 2007, the National Development and Reform Commission (“NDRC”) and MOC, jointly promulgated the Catalogue of Industries for Guiding Foreign Investment (as amended in 2007), which came into effect on December 1, 2007 (the “Catalogue”), as amended on December 24, 2011 and came into effect on January 30, 2012. The Catalogue lists out the industries and economic activities which are encouraged, restricted or prohibited by the PRC government for foreign investment. The Catalogue does not specify which business activities are in the permitted category. Instead, if the business activities are not listed in any of the encouraged, restricted or the prohibited categories, they shall be construed as being in the permitted category. Pursuant to the Catalogue, the wholesale of refined oil falls under the restricted category. None of our Group’s business activities are listed in the prohibited category.

Labor Law

Pursuant to the Labor Law of the PRC promulgated by Standing Committee of the NPC on July 5, 1994 and was subsequently amended on August 27, 2009, the Labor Contract Law of the PRC promulgated by Standing Committee of the NPC on June 29, 2007 and was subsequently amended on December 28, 2012 and the Labour Contract Law Implementation Rules of the PRC promulgated by the State Council on September 18, 2008, companies must enter into employment contracts with their employees, based on the principles of equality, consent and agreement through consultation. Companies must establish and effectively implement system of ensuring occupational safety and health, educating employees on occupational safety and health, preventing work-related accidents and reducing occupational hazards. Companies must also pay for their employees' social insurance premium.

Social Insurance Law

Employers in China are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance, maternity insurance, and housing provident funds. These payments are made to local administrative authorities and an employer who fails to contribute may be fined and be ordered to make-up for the missed contributions. The various laws and regulations that govern the employers' obligation to contribute to the social security funds include PRC Social Insurance Law promulgated by the Standing Committee of the NPC on October 28, 2010 and became effective July 1, 2011; the Interim Regulations on the Collection and Payment of Social Security Funds, which were promulgated by the State Council and became effective on January 22, 1999; the Interim Measures concerning the Maternity Insurance, which were promulgated by the Ministry of Labor on December 14, 1994 and became effective on January 1, 1995; the Regulations on Occupational Injury Insurance, which were promulgated by the State Council on April 27, 2003 and became effective on January 1, 2004 and was amended on December 20, 2010; the Regulations on Management of the Housing Provident Fund, which were promulgated and became effective on April 3, 1999 and was amended on March 24, 2002.

Where the enterprises fail to pay the full amount of the social insurance premiums, the relevant department aforesaid has the authority to check and decide on the amount of social insurance premiums that the enterprises should pay as the supplementary payment. If the enterprises does not pay for the social insurance premiums after the relevant department has charged the full amount of the supplementary payment, the relevant department is authorized to either inquire about the deposit account of such enterprises, or apply to the related department at or above the county level for making the decision of the allocation of social insurance premiums. The relevant department can also inform the bank or other financial institution to execute the allocation by written notice. If the amount of the deposit account is smaller than the amount of social insurance premiums required to pay by the enterprises, the enterprises may provide a security and delay the date to pay the social insurance premiums. If the amount of the deposit account is smaller than the amount of the social insurance premiums needed to pay by the enterprises, and the enterprises fails to provide a security, the relevant department shall apply to the court for the levying, sealing and auctioning of the property of such enterprises.

If the enterprises do not pay the full amount of social insurance premiums as scheduled, the social insurance premium collection institution shall order them to make the payment or make up the difference within a stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department shall impose a fine from one to three times the amount of overdue payment.

Environmental Protection Regulations

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on December 26, 1989, which has been amended on April 24, 2014 and will take effect on January 1, 2015, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. 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 in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have cause severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalized. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalized or have their business licenses terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate the any losses or damages suffered as a result of such environmental pollution.

Governmental Regulations in Relation to the Company's Businesses

Pursuant to the Implementation Measures for Work Safety Licenses of Enterprises Producing Hazardous Chemicals ("Measures of Producing Hazardous Chemicals") promulgated by State Administration of Work Safety on August 5, 2011 which took effect on December 1, 2011, where an enterprise is established in accordance with relevant laws and has obtained the industrial and commercial business licenses or industrial and commercial approval documents for engaging in the production of end products or intermediate products that are included in the Catalogue of Hazardous Chemicals, the enterprise shall obtain the work safety licenses for hazardous chemicals in accordance with the provisions of Measures of Producing Hazardous Chemicals. The enterprise that has not obtained the work safety licenses shall not engage in the production activities of hazardous chemicals.

Save as otherwise disclosed, we are not subject to any special legislation or regulatory controls in the PRC other than those generally applicable to companies and businesses in the PRC, which will have a material effect on our business operations. Changes in the PRC governmental rules and regulations will have a significant impact on our business, and Foreign exchange control and tax policies in the PRC may limit our ability to utilize our revenue effectively and affect our ability to receive dividends and other payments from our subsidiaries in the PRC.

Please also refer to the Section “Risk Factors – Risks Relating to Doing Business in the PRC” of this report for details on the applicable PRC laws and regulations.

Licenses, Permits and Approvals

As of the date of this report, we have obtained all material licenses, permits and approvals from the relevant government authorities for our business operations in the PRC, and have complied with all relevant PRC environmental laws and regulations, and have not been fined under any related PRC environmental laws or regulations. Please see the table below for the material licenses, permits and approvals that we have received as of the date of this report:

Entity	Licenses, Permits and Certificates	Serial Number	Valid Term/ Renewal Period	Authority
Jiangsu Delta	Registration Certificate for Using Hazardous Chemicals	321110234	April 6, 2017 to April 5, 2020	Jiangsu Province Administration of Work Safety Chemical Registration Centre
Jiangsu Delta	Trading License for Hazardous Chemicals	Su Zhen Wei Hua Jing Zi 000197	January 5, 2018 to January 4, 2021	Administration of Work Safety of Zhenjiang City
Jiangsu Delta	Record Keeping Certificate of Non-Pharmaceutical Precursor Chemical Production	(Su) 3S32111200031	April 24, 2017 to April 9, 2020	Administration of Work Safety of Zhenjiang City
Jiangsu Delta	Pollutant Discharge Permit	Zhen Tu Huan No. 3211212012062	May 2018 to May 2021	Environment Protection Agency of Dantu District, Zhenjiang City
Jiangsu Delta	Business License	91321100662742845	June 15, 2007 to June 14, 2027	Administration of Industry and Commerce of Zhenjiang, Jiangsu Province
Jiangsu Delta	Work Safety License	(Su) WH An Xu Zheng Zi [L00230]	April 10, 2017 to April 9, 2020	Administration of Work Safety of Jiangsu Province
Jiangsu Delta	Financial Registration Certificate for Foreign-invested Enterprises	No.3211210203	June 15, 2007 to June 14, 2027	Local Financial Bureau of Dantu District, Zhenjiang City
Jiangsu Delta	Organization Code Certificate	No.66274328-4	June 11, 2015 to June 10, 2019	Jiangsu Zhenjiang Administration of Quality Supervision, Inspection and Quarantine
Jiangsu Delta	Foreign Exchange Registration Card	No.00085568	N.A.	State Foreign Exchange Administration
Jiangsu Delta	Bank Account Permit	No. J3140002471102	(Note: issued on July 16, 2008)	People's Bank of China, Zhenjiang Branch
Jiangsu Delta	Social Insurance Registration Certificate	She Xian Su Zi No.32112115000942	June 23, 2010 to October 30, 2020	Social Labour Insurance Fund Management Centre, Dantu District, Zhenjiang City
Jiangsu Delta	Environmental Management System Certificate	04418E10934R1M	August 17, 2018 to August 17, 2021	China Certification Centre Inc.
Entity	Licenses, Permits and Certificates	Serial Number	Valid Term/ Renewal Period	Authority
	Business license Binhai	913209220710182325		

Binhai Delta			June 8, 2013 to June 7, 2043 N.A.	Administration of Industry and Commerce of Binhai, Yanhai
Binhai Delta	Bank Account Permit	No. J3112001078201	(Note: issued on June 19, 2013)	People's Bank of China, Binhai Branch

Properties

We currently own the following land use rights in the PRC:

Owner	Location	Certificate of state- owned Land Use Right No.	Tenure	Approximate Gross Floor Area (sqm)	Use of Property
Jiangsu Delta	Chenfeng Village, Gaozi Town, Dantu District, Zhenjiang	Zhen Tu Guo Yong (2008) No.199 ⁽¹⁾	October 19, 2008 to July 29, 2058	53,369	Industrial
Jiangsu Delta	Chenfeng Village, Gaozi Town, Dantu District, Zhenjiang	Zhen Tu Guo Yong (2011) No.1037	August 1, 2011 to August 31, 2060	26,023	Industrial

Note:

This land use right has been mortgaged to the Industrial and Commercial Bank of China, Zhenjiang Branch. The period of the mortgage is commencing from May 31, 2013 and ending on December 31, 2017. During the term of the mortgage, Jiangsu Delta's rights to transfer, lease, mortgage or otherwise dispose of this land use right shall be subject to the prior written approval of the relevant bank.

We currently own and possess the Building Ownership Certificates for the following buildings in the PRC:

Location	Certificate of Real Estate Ownership No.	Approximate Gross Floor Area (sq m)	Use of Property
Building 3 No. 1 Fine Chemical Park Gaozi Zhen Dantu Economic and Development Zone Zhenjiang City ⁽¹⁾	Zhen Fang Quan Zheng Zi No. 1201007277100110	1,140.9	Industrial
North of Development Zone Road, South of Hu Ning Expressway	Dan Fang Quan Zheng Kai Fa Qu Zi No. 02032188	12,119.44	Research and Development

Note:

(1) This property has been mortgaged to the Industrial and Commercial Bank of China, Zhenjiang Branch. The term of the mortgage is one year commencing from June 20, 2016 and ending on June 19, 2017. During the term of the mortgage, our rights to transfer, lease, mortgage or otherwise dispose of this property shall be subject to the prior written approval of the relevant bank.

As of the date of this report, we do not lease any properties.

We believe there are no regulatory requirements or environmental issues that may materially affect our utilization of the above properties and fixed assets, all of which are located in the PRC.

C. Organizational structure

The chart below presents our corporate structure as of the date of this report.

D. Property, Plants and Equipment

Information regarding our property, plants and equipment is described “Item 4. B. Business Overview.”

Item 4A. Unresolved Staff Comments

Not required.

Item 5. Operating and Financial Review and Prospects

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The information in this report contains forward-looking statements. All statements other than statements of historical fact made in this report are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified by the use of words such as "believes," "estimates," "could," "possibly," "probably," "anticipates," "projects," "expects," "may," "will," or "should" or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with our financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

Overview

We are a fine and specialty chemical manufacturer, primarily engaged in manufacturing and selling of organic compound including para-chlorotoluene ("PCT"), ortho-chlorotoluene ("OCT"), and PCT/OCT downstream products. We used to manufacture unsaturated polyester resin ("UPR"), maleic acid ("MA") and other by-product chemicals but no longer do so.

We collaborate with reputable universities, such as the East China Normal University in order to secure our position as a market leader. We also closely monitor the market for development, trends and technological innovations and solicit customer feedback so as to keep abreast with market demands and industrial development.

This discussion and analysis focuses on the business results, comparing results of operations for the fiscal year ended June 30, 2018, 2017, and 2016, respectively.

The fiscal year ended June 30, 2018 and June 30, 2017

Results of Operations

In the fiscal year ended June 30, 2018, our revenue decreased by 31.69% year over year and incurred net losses for US\$82.89M due to significant bad debts provision of US\$77.81M. Our gross profit margin was driven down from 6.97% to 5.11% resulting from the high competition for our PCT/OCT products for the fiscal year ended June 30, 2018.

The following table summarizes the results of our operations during the fiscal years ended June 30, 2018 and 2017, respectively, and provides information regarding the dollar and percentage increase (or decrease) for the fiscal year ended June 30, 2018 as compared to 2017.

	The Fiscal Year Ended June 30			Change
	2018	2017	Change	Rate
Net Revenue	\$ 38,452,206	\$ 56,292,093	\$(17,839,887)	-31.69 %
Cost of Sales	\$(36,488,874)	\$(52,367,418)	\$ 15,878,544	-30.32 %
Gross Profit	\$ 1,963,332	\$ 3,924,675	\$(1,961,343)	-49.97 %
Gross Margin	5.11	% 6.97	% N/A	N/A
Operating Expenses	\$(83,440,221)	\$(31,874,182)	\$ 51,566,039	161.78 %
Operating (Loss)	\$(81,476,889)	\$(27,949,507)	\$ 53,527,382	191.51 %
Operating Margin	-211.89	% -49.65	% N/A	N/A
Change in fair value of warrants	\$ 205,785	\$ 531,099	\$(325,314)	-61.25 %
Other loss - net	\$(1,618,231)	\$(1,008,836)	\$ 609,395	60.41 %
Income taxes	\$-	\$-	\$-	N/A
Net (Loss)	\$(75,467,243)	\$(30,309,130)	45,158,113	148.99 %
Net (Loss) Margin	-196.26	% -53.84	% N/A	N/A

Revenue

Revenue for the fiscal year ended June 30, 2018 was \$38,452,206, an increase of 30.32% as compared with revenue of \$56,292,093 for the fiscal year ended June 30, 2017. It mainly due to the low demand of PCT/OCT as result of the slowdown in China's economic growth for the fiscal year ended June 30, 2018. The Company will periodically reviews the market situation to adjust production to fit market demand.

Gross Profit

Gross profit decreased 49.97% to \$1,963,332 for the fiscal year ended June 30, 2018, as compared with \$3,924,675 for the fiscal year ended June 30, 2017. The gross margin was 5.11% for the fiscal year ended June 30, 2018 as compared with 6.97 % for the same period of 2017, mainly because the Company could not increase the selling price to cover the increase of cost of good sales due to the lower demand and higher competition for the PRC market.

Operating Income

Operating loss was \$81,476,889 for the fiscal year ended June 30, 2018 as compared with operating income \$27,949,507 for the fiscal year ended June 30, 2017. The operating loss was mainly due to doubtful debts provision of \$77.81M recorded during fiscal year 2018.

Cost of Sales

Cost of sales was \$36,488,874 for the fiscal year ended June 30, 2018, representing a 30.32% decrease as compared with \$52,367,418 for the same period of 2017. The decrease in cost of sales was in tandem with the revenue decrease year over year.

Operating Expenses

The table below provides a detailed breakdown of our operating expenses for the periods indicated:

	The Fiscal Year Ended June 30,		
	2018	2017	Change
Selling expenses	\$ 2,383,372	\$ 1,416,283	68.28 %
General & Administrative expenses	\$ 3,248,267	\$ 5,295,518	-38.66 %
Bad debt provision	\$ 77,808,582	\$ 25,162,381	209.23 %
Total operating expenses	\$ 83,440,221	\$ 31,874,182	161.78 %

Operating expenses were \$83,440,221 for the fiscal year ended June 30, 2018, representing a 161.78% increase as compared with \$31,874,182 for the fiscal year ended June 30, 2017. The increase was primarily due to doubtful debts provision of \$77.81M was made during fiscal year 2018 which is partly offset by the reducing of general and administrative expenses.

Change in Fair Value of Warrants

Gain on change in fair value of warrants was \$205,785 for the fiscal year ended June 30, 2018 as compared with \$531,099 for the fiscal year ended June 30, 2017. This is recorded as a non-cash gain, which resulted from the change in fair value of warrants issued connection with our private placement on November 21, 2017.

Net Loss

Net loss was \$82,889,335 for the fiscal year ended June 30, 2017 as compared with \$28,427,244 for the fiscal year ended June 30, 2017. The increase in net loss in the fiscal year ended June 30, 2017 was mainly due to the decrease of gross profits and the doubtful debts provision being made.

Earnings per Share

Basic and diluted loss per share (“EPS”) for the fiscal year ended June 30, 2018 were \$7.11 and \$7.11 compared with EPS of \$2.87 and \$2.87 for the same period of 2017. The weighted average number of shares outstanding to calculate basic EPS was 11,653,729 and 9,914,313 for the fiscal year ended June 30, 2018 and 2017, respectively. The weighted average number of shares outstanding to calculate diluted EPS was 11,653,729 and 9,914,313 for the fiscal year ended June 30, 2018 and 2017.

Liquidity and Capital Resources

We have historically financed our operations and capital expenditures principally through debt and equity offerings and cash provided by operations.

The table below presents information about our cash flow for the periods indicated:

	The Fiscal Year Ended June 30,		
	2018	2017	Change
Net cash provided by (used in) operating activities	\$ (3,178,300)	\$ 343,545	N/M
Net cash provided by (used in) investing activities	\$ (1,121,306)	\$ 38,926	N/M
Net cash provided by (used in) financing activities	\$ 486,919	\$ (388,495)	N/M
Effect of foreign currency translation on cash and cash equivalents	\$ 4,787,111	\$ (12,841)	N/M
Beginning cash and cash equivalent	\$ 44,284	\$ 63,149	29.87 %
Ending cash and cash equivalent	\$ 1,018,708	\$ 44,284	2,200.40 %

Operating Activities

For the fiscal year ended June 30, 2018, net cash used in operating activities was \$3,718,300. This was primarily attributable to: 1) our net loss of \$82,889,335, adjusted by an add-back of non-cash charges mainly consisting of depreciation and amortization, change in fair value of warrants, share-based compensation expenses, allowance for doubtful accounts, allowance for obsolete stock of \$4,625,090, \$205,785, \$872,000, \$77,703,779 and \$105,002 respectively; 2) an increase of \$3,389,051 in working capital, primarily due to: (i) a increase of \$7,193,135 from trade and other receivables; (ii) an decrease of \$244,362 in inventories, principally consisting of raw material; (iii) a increase of \$8,169,616 in trade and other payables, and (iv) an decrease of \$4,609,894 in advance from customers’ deposits.

Investing Activities

For the fiscal year ended June 30, 2018, net cash used in investing activities was \$1,121,306. This was primarily attributable to: (i) \$252,330 provided from the disposal of property and equipment, and (ii) capital expenditure of \$1,373,636 for the purchase of new plant and equipment.

Financing Activities

For the fiscal year ended June 30, 2018, net cash provided by financing activities was \$486,919, primarily attributable to: (i) cash received from private placement of \$1,176,307, (ii) proceeds from bank borrowings of 28,256,564, (iii) repayment of bank borrowings of \$28,959,788, and (iv) a change in restricted cash of \$13,836.

Cash and Cash Equivalents

Our cash and cash equivalents as at July 1, 2017, were \$44,284 and increased to \$1,018,708 by June 30, 2018. The increase was mainly due to effect of exchange rate change on cash.

In future periods, we believe that our existing cash, cash equivalents and cash flows from operations, combined with cash availability under our revolving credit facility, will be insufficient to meet our presently anticipated future cash needs for at least the next year. We will require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

Trade Receivables, net

Trade receivables, net were \$5,545,363 as of June 30, 2018, representing a 73.59% decrease as compared with \$20,993,949 as of June 30, 2017. This decrease in trade receivables was primarily attributable to increase in allowance of doubtful accounts.

Inventory

Inventory consists of raw materials and finished goods. As of June 30, 2018, the recorded value of our inventory decreased 4.07% to \$5,067,731 from \$5,282,737 as of June 30, 2017. This decrease is mainly due to a decrease of raw materials from \$3,768,842 as of June 30, 2017 to \$641,222 as of June 30, 2018 which partly offset by the increase in production of finished goods from \$1,513,895 as of June 30, 2017 to \$4,426,509 as of June 30, 2018. The decrease of inventory was primarily due to the Company's efforts to minimize its inventory level due to cost savings.

Accounts Payable

Trade and other payables were \$21,468,563 as of June 30, 2018, a decrease of 63.49 % from \$13,131,216 as of June 30, 2017. The increase is mainly due to an increase of trade payable from \$10,203,538 as of June 30, 2017 to \$18,120,016 as of June 30, 2018.

Obligations under Material Contracts

There was no material contractual obligation as of June 30, 2018

The fiscal year ended June 30, 2017 and June 30, 2016

Results of Operations

In the fiscal year ended June 30, 2017, our revenue increased by 5.38% year over year and incurred net losses for US\$28.43M due to significant bad debts provision of US\$25.16M. Our gross profit margin was driven down from 8.81% to 6.97% resulting from the high competition for our PCT/OCT products for the fiscal year ended June 30, 2017.

The following table summarizes the results of our operations during the fiscal years ended June 30, 2017 and 2016, respectively, and provides information regarding the dollar and percentage increase (or decrease) for the fiscal year ended June 30, 2017 as compared to 2016.

	The Fiscal Year Ended June 30			Change	Rate
	2017	2016	Change		
Net Revenue	\$56,292,093	\$53,418,112	\$2,873,981	5.38	%
Cost of Sales	\$(52,367,418)	\$(48,713,456)	\$3,653,962	7.50	%
Gross Profit	\$3,924,675	\$4,704,656	\$(779,981)	16.58	%
Gross Margin	6.97	% 8.81	% N/A	N/A	
Operating Expenses	\$(31,874,182)	\$(15,137,604)	\$16,736,578	110.56	%
Operating (Loss) Income	\$(27,949,507)	\$(10,432,948)	\$17,516,559	167.90	%
Operating Margin	-49.65	% -19.53	% N/A	N/A	
Change in fair value of warrants	\$531,099	\$6,856,682	\$6,325,583	-92.25	%
Gain on disposal of a subsidiary	\$0	\$435,488	\$N/A	N/A	
Other loss - net	\$(1,008,836)	\$(4,417,452)	\$(3,408,616)	-77.16	%
Income taxes	\$0	\$802,627	\$802,627	N/A	
Net (Loss) Income	\$(30,309,130)	\$(6,755,603)	(23,553,527)	348.65	%
Net (Loss) Profit Margin	-53.840	% -12.65	% N/A	N/A	

Revenue

Revenue for the fiscal year ended June 30, 2017 was \$56,292,093, an increase of 5.38% as compared with revenue of \$53,418,112 for the fiscal year ended June 30, 2016. In the fiscal year ended June 30, 2017, no more revenue from sales of UPR and SCM as compared with USD4.57M and USD1.514M, respectively, in the fiscal year ended June 30, 2016 due to the Company exiting this market due to low margins. In the fiscal year ended June 30, 2017, revenue from sales of PCT/OCT was USD56.29M an increase of 18.93% as compared with USD47.33M in the fiscal year ended June 30, 2016. The increase for sales of PCT/OCT was mainly due to more marketing and sales resources allocated to the sale and marketing of PCT/OCT after the Company exited the UPR and SCM markets. The Company periodically reviews the market situation to adjust production to fit market demand.

The following table shows a breakdown of revenues from for our main products and service:

	The Fiscal Year Ended June 30,		2016			
	2017		Sales	% of total sales		
UPR/MA	0	0	% 4,571,332	8.56	%	
PCT/OCT	56,292,093	100.00	% 47,332,388	88.61	%	
SCM	0	0	% 1,514,392	2.83	%	
Total revenue	\$56,292,093	100.00	% \$53,418,112	100.00	%	

Gross Profit

Gross profit decreased 16.58% to \$3,924,675 for the fiscal year ended June 30, 2017, as compared with \$4,704,656 for the fiscal year ended June 30, 2016. The gross margin was 6.97% for the fiscal year ended June 30, 2017 as compared with 8.81 % for the same period of 2016, mainly because the Company could not increase the selling price to cover the increase of cost of good sales due to the lower demand and higher competition for the PRC market.

Operating Income

Operating loss was \$27,949,507 for the fiscal year ended June 30, 2017 as compared with operating income \$10,432,948 for the fiscal year ended June 30, 2016. The operating loss was mainly due to doubtful debts provision of \$25.16M recorded during fiscal year 2017.

Cost of Sales

Cost of sales was \$52,367,418 for the fiscal year ended June 30, 2017, representing a 7.5% increase as compared with \$48,713,456 for the same period of 2016. The increase in cost of sales was in tandem with the revenue increase year over year.

Operating Expenses

The table below provides a detailed breakdown of our operating expenses for the periods indicated:

	The Fiscal Year Ended June 30,		
	2017	2016	Change
Selling expenses	\$ 1,416,283	\$ 2,251,997	-37.11 %
General & Administrative expenses	\$ 5,295,518	\$ 5,376,137	-1.50 %
Bad debt provision	\$ 25,162,381	\$ 7,509,470	235.08 %
Total operating expenses	\$ 31,874,182	\$ 15,137,604	110.56 %

Operating expenses were \$31,874,182 for the fiscal year ended June 30, 2017, representing a 110.56% increase as compared with \$15,137,604 for the fiscal year ended June 30, 2016. The increase was primarily due to doubtful debts provision of \$25.16M was made during fiscal year 2017 which is partly offset by the reducing of selling expenses and general and administrative expenses.

Change in Fair Value of Warrants

Gain on change in fair value of warrants was \$531,099 for the fiscal year ended June 30, 2017 as compared with \$6,856,682 for the fiscal year ended June 30, 2016. This is recorded as a non-cash gain, which resulted from the change in fair value of warrants issued connection with our public offering on December 21, 2012.

Net Loss

Net loss was \$28,427,244 for the fiscal year ended June 30, 2017 as compared with \$6,755,603 for the fiscal year ended June 30, 2016. The increase in net loss in the fiscal year ended June 30, 2017 was mainly due to the decrease of gross profits and the doubtful debts provision being made.

Earnings per Share

Basic and diluted loss per share (“EPS”) for the fiscal year ended June 30, 2017 were \$2.87 and \$2.87 compared with EPS of \$1.46 and \$1.46 for the same period of 2016. The weighted average number of shares outstanding to calculate basic EPS was 9,914,313 and 9,323,108 for the fiscal year ended June 30, 2017 and 2016, respectively. The weighted average number of shares outstanding to calculate diluted EPS was 9,914,313 and 9,323,108 for the fiscal year ended June 30, 2017 and 2016.

Liquidity and Capital Resources

We have historically financed our operations and capital expenditures principally through debt and equity offerings and cash provided by operations.

The table below presents information about our cash flow for the periods indicated:

	The Fiscal Year Ended June 30,		
	2017	2016	Change
Net cash provided by (used in) operating activities	\$ 343,545	\$ (19,158,235)	26.79 %
Net cash provided by (used in) investing activities	\$ 38,926	\$ (910,715)	N/M
Net cash provided by (used in) financing activities	\$ (388,495)	\$ 18,678,460	N/M
Effect of foreign currency translation on cash and cash equivalents	\$ (12,841)	\$ 1,236,027	N/M
Beginning cash and cash equivalent	\$ 63,149	\$ 217,612	97.59 %
Ending cash and cash equivalent	\$ 44,284	\$ 63,149	70.98 %

Operating Activities

For the fiscal year ended June 30, 2017, net cash from operating activities was \$343,545. This was primarily attributable to: 1) our net loss of \$28,427,244, adjusted by an add-back of non-cash charges mainly consisting of depreciation and amortization, change in fair value of warrants, share-based compensation expenses, allowance for doubtful accounts, allowance for obsolete stock of \$3,809,025, \$531,099, \$2,418,688, \$23,950,416 and \$1,211,966 respectively, and non-cash gain from disposal of property accounts of \$417,277; 2) an increase of \$1,670,930 in working capital, primarily due to: (i) a decrease of \$8,355,425 from trade and other receivables; (ii) an increase of \$743,189 in inventories, principally consisting of raw material; (iii) a decrease of \$7,612,138 in trade and other payables, and (iv) an decrease of \$1,671,028 in advance from customers’ deposits.

Investing Activities

For the fiscal year ended June 30, 2017, net cash provided by investing activities was \$38,926. This was primarily attributable to: (i) \$932,572 provided from the disposal of property and equipment, and (ii) capital expenditure of \$893,646 for the purchase of new plant and equipment.

Financing Activities

For the fiscal year ended June 30, 2017, net cash used by financing activities was \$388,495, primarily attributable to: (i) repayment of bank borrowings of \$462,567, and (ii) a change in restricted cash of \$74,072.

Cash and Cash Equivalents

Our cash and cash equivalents as at July 1, 2016, were \$63,149 and decreased to \$44,284 by June 30, 2017. The decrease was mainly due to increase in net cash used in operating activities.

In future periods, we believe that our existing cash, cash equivalents and cash flows from operations, combined with cash availability under our revolving credit facility, will be insufficient to meet our presently anticipated future cash needs for at least the next year. We will require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

Trade Receivables, net

Trade receivables, net were \$20,993,949 as of June 30, 2017, representing a 58.12% decrease as compared with \$50,126,279 as of June 30, 2016. This decrease in trade receivables was primarily attributable to increase in allowance of doubtful accounts.

Inventory

Inventory consists of raw materials and finished goods. As of June 30, 2017, the recorded value of our inventory decreased 10.17% to \$5,282,737 from \$5,880,881 as of June 30, 2016. This decrease is mainly due to a decrease in production of finished goods from \$1,960,063 as of June 30, 2016 to \$1,513,895 as of June 30, 2017 and a decrease of raw materials from \$3,920,818 as of June 30, 2016 to \$3,768,842 as of June 30, 2017. The decrease of inventory was primarily due to the Company's efforts to minimize its inventory level due to cost savings.

Accounts Payable

Trade and other payables were \$13,131,216 as of June 30, 2017, a decrease of 38.04 % from \$21,194,399 as of June 30, 2016. The decrease was primarily attributable to a lower purchase volume.

Obligations under Material Contracts

There was no material contractual obligation as of June 30, 2017.

The fiscal year ended June 30, 2016 and June 30, 2015**Results of Operations**

In the fiscal year ended June 30, 2016, our revenue decreased by 73.56% year over year and incurred net losses for US\$6.756M due to significant dropping of revenue. Our net profit margin was driven down by 7.85% resulting from the high competition of the PCT/OCT and UPR market for the fiscal year ended June 30, 2016.

The following table summarizes the results of our operations during the fiscal years ended June 30, 2016 and 2015, respectively, and provides information regarding the dollar and percentage increase (or decrease) for the fiscal year ended June 30, 2016 as compared to 2015.

	The Fiscal Year Ended June 30			Change	
	2016	2015	Change	Rate	
Net Revenue	\$53,418,112	\$202,009,160	\$(148,591,048)	73.56	%
Cost of Sales	\$(48,713,456)	\$(182,692,715)	\$(133,979,259)	73.34	%
Gross Profit	\$4,704,656	\$19,316,445	\$(14,611,789)	75.64	%
Gross Margin	8.81	9.56	0.75	7.85	%
Operating Expenses	\$(15,137,604)	\$(7,058,041)	\$8,079,563	114.47	%
Operating (Loss) Income	\$(10,432,948)	\$12,258,404	\$N/A-	N/A	
Operating Margin	(19.53)	6.07	N/A-	N/A	
Change in fair value of warrants	\$6,856,682	\$(7,906,529)	\$N/A	N/A	
Gain on disposal of a subsidiary	\$435,488	\$1,178,093	\$(742,605)	63.03	%
Other loss - net	\$(4,417,452)	\$(394,211)	\$4,023,241	N/A	
Income taxes	\$802,627	\$(3,729,238)	\$N/A-	N/A	
Net (Loss) Income	\$(6,755,603)	\$1,406,519	N/A-	N/A	
Net (Loss) Profit Margin	(12.65)	0.70	N/A-	N/A	

Revenue

Revenue for the fiscal year ended June 30, 2016 was \$53,418,112, a decrease of 73.56% as compared with revenue of \$202,009,160 for the fiscal year ended June 30, 2015. In the fiscal year ended June 30, 2016, revenue from sales of UPR was USD4.57M, a decrease of 88.13% as compared with USD38.51M in the fiscal year ended June 30, 2015. In the fiscal year ended June 30, 2016, revenue from sales of PCT/OCT was USD47.33M a decrease of 44.47% as compared with USD85.23M in the fiscal year ended June 30, 2015. The decrease for both sales of UPR and PCT/OCT mainly due to the low demand as result of the slowdown in China's economic growth. In the fiscal year ended June 30,

2016, revenue from sales of chemicals in the SCM segment was USD1.51M, a decrease of 98.06% as compared with USD78.26M in the fiscal year ended June 30, 2015. The decrease in the sales in the SCM segment was due primarily to the Company exiting this market due to low margins. The Company periodically reviews the market situation to adjust production to fit market demand.

The following table shows a breakdown of revenues from for our main products and service:

	The Fiscal Year Ended June 30,					
	2016		2015			
	Sales	% of total sales	Sales	% of total sales		
UPR	4,571,332	8.56	% 38,513,560	19.06	%	
PCT/OCT	47,332,388	88.61	% 85,234,434	42.19	%	
SCM	1,514,392	2.83	% 78,261,166	38.75	%	
Total revenue	\$53,418,112	100.00	% \$202,009,160	100.00	%	

Gross Profit

Gross profit decreased 75.64% to \$4,704,656 for the fiscal year ended June 30, 2016, as compared with \$19,316,445 for the fiscal year ended June 30, 2015. The gross margin decreased by 7.85% from 8.81% for the fiscal year ended June 30, 2016 to 9.56 % for the same period of 2015, mainly because the revenue was dropping as result of low demand from PRC market

Operating Income

Operating loss was \$10,432,948 for the fiscal year ended June 30, 2016 as compared with operating income \$12,258,404 for the fiscal year ended June 30, 2015. The operating loss was mainly due to (i) doubtful debts provision of \$7.51M recorded during FY2016, and (ii) a write off \$2.6M for Plant and Equipment which are not being used for future production

Cost of Sales

Cost of sales was \$48,713,456 for the fiscal year ended June 30, 2016, representing a 73.34% decrease as compared with \$182,692,715 for the same period of 2015. The decrease in cost of sales was due to revenue reduced.

Operating Expenses

The table below provides a detailed breakdown of our operating expenses for the periods indicated:

	The Fiscal Year Ended June 30,		
	2016	2015	Change
Selling expenses	\$ 2,251,997	\$ 2,384,459	-5.56 %
General & Administrative expenses	\$ 5,376,137	\$ 3,474,472	54.73 %
Bad debt provision	\$ 7,509,470	\$ 1,199,110	526.25 %
Total operating expenses	\$ 15,137,604	\$ 7,058,041	114.47 %

Operating expenses were \$15,137,604 for the fiscal year ended June 30, 2016, representing a 114.47% increase as compared with \$7,058,041 for the fiscal year ended June 30, 2015. The increase was primarily due to two factors: (i) a doubtful debts provision of \$7.51M was made during FY2016, and (ii) a write off \$2.6M for Plant and Equipment which are not being used for the future production.

Change in Fair Value of Warrants

Gain on change in fair value of warrants was \$6,856,682 for the fiscal year ended June 30, 2016 as compared with a loss of \$7,906,529 for the fiscal year ended June 30, 2015. This is recorded as a non-cash gain, which resulted from the change in fair value of warrants issued connection with the Public Offering on December 21, 2012.

Gain on Disposal of A Subsidiary

The Company recorded a gain of \$435,488 from the disposal of Jiangsu Delta Logistics Co Ltd during the year ended June 30, 2016 when the Company sold the subsidiary to Mr. Yang Yi at a sale price of \$1,505,140 (RMB10million) on March 20, 2016 pursuant to a sale and purchase agreement.

Net Income

Net loss was \$6,755,603 for the fiscal year ended June 30, 2016 as compared with net income of \$1,406,519 for the fiscal year ended June 30, 2015. The decrease in net income in the fiscal year ended June 30, 2016 was mainly due to the decrease of revenue and the provision made.

Earnings per Share

Basic and diluted loss per share (“EPS”) for the fiscal year ended June 30, 2016 were \$1.46 and \$1.46 compared with EPS of \$1.44 and \$1.44 for the same period of 2015. The weighted average number of shares outstanding to calculate basic EPS was 9,323,108 and 6,462,577 for the fiscal year ended June 30, 2016 and 2015, respectively. The weighted average number of shares outstanding to calculate diluted EPS was 9,323,108 and 6,462,577 for the fiscal year ended June 30, 2016 and 2015.

Liquidity and Capital Resources

We have historically financed our operations and capital expenditures principally through debt and equity offerings and cash provided by operations.

The table below presents information about our cash flow for the periods indicated:

	The Fiscal Year Ended June 30,		
	2016	2015	Change
Net cash provided by (used in) operating activities	\$(19,158,235)	\$(15,139,370)	26.53 %
Net cash provided by (used in) investing activities	\$(910,715)	\$15,187,228	N/M
Net cash provided by (used in) financing activities	\$18,678,460	\$(8,705,226)	N/M
Effect of foreign currency translation on cash and cash equivalents	\$1,236,027	\$(170,970)	N/M
Beginning cash and cash equivalent	\$217,612	\$9,045,950	97.59 %
Ending cash and cash equivalent	\$63,149	\$217,612	70.98 %

Operating Activities

For the fiscal year ended June 30, 2016, net cash used in operating activities was \$19,158,235. This was primarily attributable to: 1) our net loss of \$6,755,603, adjusted by an add-back of non-cash charges mainly consisting of depreciation and amortization, change in fair value of warrants, deferred income taxes, allowance for doubtful accounts, allowance for obsolete stock, impairment losses recognized on Plant and Equipment of \$5,883,313, \$6,856,682, \$26,518, \$7,509,470, \$423,588 and \$2,599,980, respectively, and non-cash gain from disposals of property accounts and disposal of a subsidiary of \$90,700 and \$435,488, respectively; 2) an increase of \$21,476,726 in working capital, primarily due to: (i) an increase of \$7,101,570 from trade and other receivables; (ii) a decrease of \$2,671,325 in inventories, principally consisting of raw material; partially offset by a decrease of \$20,539,601 in trade and other payables, an increase of \$4,169,072 in advance from customers deposit, and a decrease of \$675,952 in income tax payables.

Investing Activities

For the fiscal year ended June 30, 2016, net cash used in investing activities was \$910,715. This was primarily attributable to: (i) \$1,516,850 from disposals of property and equipment, (ii) capital expenditure of \$929,108 for purchase of new plant and equipment and (iii) \$1,535,243 in proceeds from the disposal of a subsidiary.

Financing Activities

For the fiscal year ended June 30, 2016, net cash provided by financing activities was \$18,678,460, primarily attributable to: (i) a short-term bank loan borrowing of \$115,610,739, (ii) repayment of bank borrowings of \$121,283,331 and (iii) a change in restricted cash of \$24,351,052.

Cash and Cash Equivalents

Our cash and cash equivalents as at July 1, 2015, were \$217,612 and decreased to \$63,149 by June 30, 2016. The decrease was mainly due to increase in net cash used in operating activities and investing activities.

In future periods, we believe that our existing cash, cash equivalents and cash flows from operations, combined with cash availability under our revolving credit facility, will be insufficient to meet our presently anticipated future cash needs for at least the next year. We will require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

Trade Receivables, net

Trade receivables, net were \$50,126,279 as of June 30, 2016, representing a 6.86% decrease as compared with \$53,818,279 as of June 30, 2015. This decrease in trade receivables was primarily attributable to a decrease in sales.

Inventory

Inventory consists of raw materials and finished goods. As of June 30, 2016, the recorded value of our inventory decreased 39.69% to \$5,880,881 from \$9,751,596 as of June 30, 2015. This decrease is mainly due to a decrease in production of finished goods from \$6,213,300 as of June 30, 2015 to \$1,960,063 as of June 30, 2016. The decrease of inventory was primarily due to the Company's efforts to minimize its inventory level due to lower demand of sales.

Accounts Payable

Trade and other payables were \$21,194,399 as of June 30, 2016, a decrease of 53.19 % from \$45,279,369 as of June 30, 2015. The decrease was primarily attributable to a lower purchase volume.

Obligations under Material Contracts

There was no material contractual obligation as of June 30, 2016.

Critical Accounting Policies

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The consolidated financial statements include the financial statements of the Company, and its wholly-owned subsidiaries. All intercompany accounts, transactions, and profits have been eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those

estimates.

Segment Reporting

The Company operates in one business and geographical segment of manufacturing and sales of organic compounds in the PRC. ASC 280, Segment Reporting, establishes standards for reporting information about operating segments. Given the economic characteristics of the similar nature of the products sold, the type of customer and the method of distribution, the Company operates as one reportable segment as defined by ASC 280, Segment Reporting.

Foreign Currency Translation

The Company's financial statements are presented in the U.S. dollar (\$), which is the Company's reporting currency and functional currency. The Company's subsidiaries in the PRC use Renminbi ("RMB") as their functional currencies. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Any differences between the initially recorded amount and the settlement amount are recorded as a gain or loss on foreign currency transaction in the consolidated statements of income. Monetary assets and liabilities denominated in foreign currency are translated at the functional currency rate of exchange ruling at the balance sheet date. Any differences are taken to profit or loss as a gain or loss on foreign currency translation in the statements of income.

In accordance with ASC 830, Foreign Currency Matters, the Company translated the assets and liabilities into US \$ using the rate of exchange prevailing at the applicable balance sheet date and the statements of income and cash flows are translated at an average rate during the reporting period. Adjustments resulting from the translation are recorded in shareholders' equity as part of accumulated other comprehensive income.

Revenue Recognition

Revenue principally represents organic compound sale revenue. Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities and is recorded net of value added tax ("VAT"). Consistent with the criteria of ASC 605 "Revenue Recognition" ("ASC 605"), the Company recognizes revenue when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been provided, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

Revenue from the sale of goods is recognized upon delivery when the significant risks and rewards of ownership of goods have transferred to the buyer, continuing managerial involvement usually associated with ownership and effective control have ceased and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is recognized on a time-proportion basis using the effective interest method

Borrowing Costs

Borrowing costs are recognized in profit or loss using the effective interest method except for those costs that are directly attributable to assets under construction. Borrowing costs on general borrowings are capitalized by applying a capitalization rate to construction or expenditures that are financed by general borrowings. Borrowing costs on general financing during the years ended June 30, 2018, 2017 and 2016 were capitalized at a rate of 4.67%, 4.9% and 5.2%, respectively.

Leases

The Company accounts for its leases under the provisions of ASC 840, Leases. Certain of the Company's operating leases provide for minimum annual payments that change over the life of the lease. The aggregate minimum annual payments are expensed on the straight-line basis over the minimum lease term. The Company recognizes a deferred rent liability for minimum step rents when the amount of rent expense exceeds the actual lease payments and it reduces the deferred rent liability when the actual lease payments exceeds the amount of straight-line rent expense. Rent holidays and tenant improvement allowances for store remodels are amortized on the straight-line basis over the initial term of the lease and any option period that is reasonably assured of being exercised.

Restricted Cash

Restricted cash are cash deposited in fixed deposit accounts maintained in the PRC and Hong Kong for the purpose of securing bank borrowings.

Trade Receivables

Trade receivables are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements' assessment of known requirements, aging of receivables, payment history, the customer's current credit worthiness and the economic environment.

Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events since the beginning of our fiscal year 2018 that are reasonably likely to have a material effect on our net revenues, income from operations, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

Off-balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2018.

Tabular Disclosure of Contractual Obligations

None.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Our directors and executive officers are as follows:

Name	Age	Position
Long Yi	41	Chief Executive Officer
Hongming Dong	49	Chief Financial Officer
Jiehui Fan	37	Independent Director (1)(2)(3)
Linchai Zhang	40	Independent Director (1)(2)(3)
Changuang Wu	50	Director
Anatoly Danilitskiy	66	Director (1)(2)(3)

- (1) Member of audit committee.
- (2) Member of compensation committee.
- (3) Member of governance and nominating committee.

Below is a summary of the business experience of each of our executive officers and directors:

Long Yi currently serves as the Chief Financial Officer and director of China Commercial Credit Inc., (Nasdaq: CCCR). Prior to joining CCCR, Mr. Yi was the senior financial manager in Sutor Technology Group Ltd. (Nasdaq: SUTR) from 2008 to August 2012. He is a Certified Public Accountant in the State of Illinois. Mr. Yi has a Bachelor's degree in Accounting from Northeastern University and a Master's degree in Accounting and Finance from University of Rotterdam. He also obtained a graduate diploma in accounting from McGill University.

Hongming Dong has rich experience in accounting and finance of chemical industry. He has been working as Finance Manager of the Company since 2010. Before joining the Company, he was Finance Manager at Danyang Liansheng Chemical Limited for over five years. Mr. Dong holds a bachelor's degree in accounting from Nanjing Economic College.

Changuang Wu has been with Delta as its Executive Director since 2007 and has been actively involved in the daily operations of Delta since its establishment in 2007. From 1989 to 1992, Mr. Wu was a loan officer of People's Bank of Danyang City. From 1992 to 2002, he worked as a chief planner at Danyang City Trust and Investment Co., Ltd. Subsequently, in August 2002 and August 2003, Mr. Wu co-founded (i) Danyang Beijiata Materials Trading ("Beijiata Materials") and (ii) Danyang Beijiata Chemicals Co., Ltd. ("Beijiata Chemicals") respectively with Mr. Xin Chao, where he was mainly responsible for the management of both Beijiata Materials and Beijiata Chemicals. While he was involved in the management of Beijiata Materials and Beijiata Chemicals, he was also the general manager of Danyang Liansheng Chemicals Co., Ltd. ("Liansheng Chemicals"). He officially left Liansheng Chemicals and joined the Target Group in November 2007. Mr. Wu graduated from Banking School of Jiangsu in 1989 with a diploma in Economic Management.

Jiehui Fan, currently serves as the Financial Manager of Hangzhou General Trade Co., Ltd., a position she has held since 2016. From June 2015 to February 2016, Ms. Fan served as a financial operator for Shanghai Yingzhi Investment Management Co., Ltd., where she raised and set up private equity funds, assisted with due diligence, and processed daily clearing and settlement. From January 2012 to May 2014, Ms. Fan served as an investment manager at Far East International Leasing Co., Ltd., where she designed investment product structure, completed industry research, and established valuation models. From October 2006 to December 2011, Ms. Fan worked at Ernst & Young PLL, where she was responsible for companies' annual audit. Ms. Fan currently serves as the independent director and chairwoman of the audit committee of China Advanced Construction Materials Group, Inc.(NASDAQ: CADC). Ms. Fan received her bachelor degree in Management in 2004 from Zhejiang University of Finance and Economics. Ms. Fan has not held any other public company directorships during the past five years.

Linchai Zhang has more than ten years' experience in accounting and auditing. She worked as a Finance Manager at the Finance Department of Hangzhou Ruilaikesi Travel Group Co., Ltd., where she has worked since July 2007. From June 2005 to July 2007, Ms. Zhang was an accountant at the Finance Department of Hangzhou Yuanjian Opto-Elec Tech Co., Ltd. From July 2003 to May 2005, Ms. Zhang worked as an accountant at the Finance Department of Hangzhou City Advertising Co., Ltd. Ms. Zhang graduated from Zhejiang University of Commerce and Industry with a diploma in Economics and Finance (Investment).

Anatoly Danilitskiy has been serving as a director since February 22, 2016. From the date of our formation in November 2011 until September 2016, Mr. Danilitskiy served as our Chairman and Chief Executive Officer. From 2009 to 2015, Mr. Danilitskiy served as Chairman of the Board of RETN Group, which is an international network service provider. From 2004 to 2009, Mr. Danilitskiy established and led National Reserve Corporation, or NRC, to consolidate its strategic non-banking investment assets to become one of Russia's largest private holding companies. While at NRC, Mr. Danilitskiy was responsible for a number of key deals in energy (including but not limited to purchasing certain Gazprom assets), transportation, debt arbitrage and distressed assets. Also from 2004 to 2009, Mr. Danilitskiy served as Chairman of CIS Interfincom AG, a financial and asset management subsidiary of NRC, where he oversaw all major money market transactions and securities trading. From 1994 to 2004, Mr. Danilitskiy served as First Deputy Chairman of National Reserve Bank, or NRB, the parent company of NRC and one of Russia's leading universal commercial banks, where he was responsible for business development and international affairs. From 2006 to 2009, Mr. Danilitskiy served as a Member of the Board of Directors and a member of the Remuneration and the Assessment Committee of Aeroflot International Airlines, a Russian national carrier, where he played a key role in the successful effort to modernize the fleet of aircraft.

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

B. Compensation

Director Compensation

We paid annual base director compensation to Jiehui Fan and Linchai Zhang of approximately USD10,000 and USD8,000, respectively in the fiscal year ended June 30, 2018 for their services as directors of the Company. We do not currently pay any compensation to Anatoly Danilitskiy for his services as a director of the Company. Mr. Changguang Wu received an annual base salary of RMB360,000 (approximately \$52,855) for the fiscal year ended June 30, 2018 for his services as president of Jiangsu Delta.

Executive Compensation

Overview of Executive Compensation

We paid annual base salaries to Long Yi and Hongming Dong of approximately USD75,000 and RMB108,000 (approximately USD15,856), respectively in the fiscal year ended June 30, 2018 for their services as officers of the Company.

We paid annual base salaries to Yi Long and Hongming Dong of approximately USD 75,000 and RMB108,000 (approximately USD 15,856), respectively in the fiscal year ended June 30, 2018 for their services as officers of the Company.

Grants of Plan Based Awards

None of the named executives of the Company currently participates in or have account balances in any plan based award programs. Future bonus plans will be adopted by the board of directors.

2016 Equity Incentive Plan

On September 27, 2016, the board of directors of the Company adopted the 2016 Equity Incentive Plan (“2016 Incentive Plan”), covering 1,442,827 ordinary shares, which represents approximately 15% of the total number of the Company’s current issued and outstanding ordinary shares. The shareholders approved the 2016 Incentive Plan at the special meeting held on October 31, 2016. Set forth below is a summary of the plan:

Awards

The 2016 Incentive Plan provides for the grant of ordinary shares, which involves or might involve the issuance of restricted ordinary shares, unrestricted ordinary shares, and/or a combination of both, for an aggregate of not more than 1,442,827 ordinary shares. If any award is forfeited, cancelled or settled in cash, the number of ordinary shares subject thereto will again be available for grant under the 2016 Incentive Plan. If there is any change in our corporate capitalization, the Compensation Committee of the Board (hereinafter referred to as the Committee) in its sole discretion may make substitutions or adjustments to the number of shares reserved for issuance under the 2016 Incentive Plan, the number of shares covered by awards then outstanding under the 2016 Incentive Plan, the limitations on awards under the 2016 Incentive Plan, and such other equitable substitution or adjustments as it may determine appropriate. The 2016 Incentive Plan has a term of ten years and no further awards may be granted under the 2016 Incentive Plan after that date.

Eligibility

The persons who are eligible to receive grants are employees, directors or consultants of the Company or its affiliates. New directors, employees and consultants of the Company or its affiliates are eligible to participate in the 2016 Incentive Plan as well. The Committee has the sole and complete authority to determine who will be granted an award under the 2016 Incentive Plan, however, it may delegate such authority to one or more officers of the company under the circumstances set forth in the 2016 Incentive Plan.

Administration

The 2016 Incentive Plan is administered by either the Board, a committee of at least two people designated by the Board or the Committee. Among other things, the Committee has the authority, in its discretion, subject to the express limits of the 2016 Incentive Plan and its charter, to (i) designate the employees, directors and consultants to be granted awards, (ii) determine the types of awards to be granted, (iii) determine the number of ordinary shares or the amount of other consideration subject to each award, (iv) determine the terms and conditions of awards granted, (v) determine the settlement or exercise of awards, (vi) determine the extent and circumstances surrounding the delivery of consideration for an award to be made, (vii) interpret, administer, reconcile any inconsistency, correct any defect or resolve any controversy regarding the 2016 Incentive Plan and related documents, (viii) establish, amend, suspend or waive any rules or regulations and appoint agents as the Committee deems appropriate for proper administration of the 2016 Incentive Plan, (ix) accelerate the vesting or lapse of restrictions on the awards and (x) make other determination and take other action that the Committee deems necessary or desirable to administer the 2016 Incentive Plan.

Additional Terms

Except to the extent otherwise provided in an award agreement, in the event of a Change in Control (as defined in the 2016 Incentive Plan), all outstanding awards issued under the 2016 Incentive Plan will become fully vested. In general, in the event of a Change of Control, the Committee may cause any award either (i) to be canceled in consideration of a payment in cash or other consideration in amount per share equal to the excess, if any, of the price or implied price per share in the Change of Control over the per share exercise, base or purchase price of such award, which may be paid immediately or over the vesting schedule of the award; or (ii) to be assumed or a substantially equivalent award be substituted by the successor corporation or a parent or subsidiary of such successor corporation.

Awards under the 2016 Incentive Plan may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or to any Permitted Transferee (as defined in the 2016 Incentive Plan). With respect to international participants who reside or work outside of the United States, the Committee may in its sole discretion amend the terms of the 2016 Incentive Plan or outstanding awards to conform with the requirements of local law or to obtain more favorable tax or other treatment for a participant, the Company or its affiliates.

Amendments

The Board may at any time alter, amend, suspend, discontinue, or terminate the 2016 Incentive Plan; provided, that no such alteration, amendment, suspension, discontinuation or termination shall be made without shareholder approval if such approval is necessary to comply with any applicable tax or regulatory requirement applicable to this plan; and provided further that no alternation, amendment, suspension, discontinuation, or termination may be effected without the prior written consent a participant if it would adversely affect the rights of the participant with respect to a previously-awarded award under the 2016 Incentive Plan.

Employment Agreements

On January 26, 2018, Xin Chao resigned his position as Chief Executive Officer and director on the board of directors (the “Board”) of Delta Technology Holdings Ltd (the “Company”). Mr. Chao’s resignation did not result from any disagreement with the Company.

On the same day, Long Yi was appointed as CEO and a director to fill in the vacancy created by Mr. Chao's resignation effective immediately.

The CEO's initial base salary shall be USD75,000 per year and such compensation is subject to annual review and adjustment by the Board.

Mr. Hongming Dong entered into an employment agreement with the Company, dated August 17, 2015, pursuant to which he will serve as the Chief Financial Officer of the Company from September 1, 2015 until the earlier of his resignation or termination by the Company. In consideration for his employment, the Company paid Mr. Dong an annual salary of RMB 90,000 (approximately \$14,048). Mr. Dong's annual salary was adjusted to RMB108,000 (approximately \$15,856) from January 1, 2016. Mr. Dong is also entitled to benefits such as vacation, sick and holiday pay, insurance, and pension, in accordance with rules, regulations and the Company's benefits policies established and in effect from time to time.

Outstanding Equity Awards at Fiscal Year-End; Option Exercises and Stock Vested

None.

Pension Benefits

None of the named executives currently participates in or has account balances in qualified or nonqualified defined benefit plans sponsored by us.

Nonqualified Deferred Compensation

None of the named executives currently participates in or has account balances in nonqualified defined contribution plans or other deferred compensation plans maintained by us.

Other than as disclosed above, we have not entered into any agreements or arrangements with our executive officers or directors, and have not made any agreements to provide benefits upon termination of employment.

C. Board Practices

Board Committees

Our Board of Directors has established an audit committee, a compensation committee and a governance and nominating committee.

Audit Committee. Our audit committee consists of Linchai Zhang, Jiehui Fan and Anatoly Danilitskiy. Jiehui Fan is the chair of the Audit Committee, and our Board of Directors believes that Ms. Fan qualifies as an “audit committee financial expert”, as such term is defined in the rules of the Securities and Exchange Commission. The Company has opted to follow its home country rules in relation to the independence of our Audit Committee members, which allows for non-independent directors to serve on the Audit Committee. In this case, Mses. Fan and Zhang are both independent, while Mr. Danilitskiy is not independent, as he served as the Company’s Chairman and Chief Executive Officer until September 14, 2014. Accordingly, we have opted not to comply with independence requirements for audit committees set forth in Nasdaq Governance Rule 5605(c)(2) and have supplied Nasdaq with notice of our non-compliance.

The Board of Directors has adopted an audit committee charter, providing for the following responsibilities of the Audit Committee:

- appointing and replacing our independent auditors and pre-approving all auditing and permitted non-auditing services to be performed by the independent auditors;

- reviewing and discussing the annual audited financial statements with management and the independent auditors;
 - annually reviewing and reassessing the adequacy of our audit committee charter;
 - such other matters that are specifically delegated to our audit committee by our Board of Directors from time to time;
- meeting separately and periodically with management, the internal auditors and the independent auditors; and
- reporting regularly to the Board of Directors.

Compensation Committee. Our compensation committee consists of Ms. Fan, Ms. Zhang and Mr. Danilitskiy. Mr. Danilitskiy serves as Chair of the Compensation Committee. Ms. Fan and Ms. Zhang do not have any direct or indirect material relationship with us other than as a director, and thus are considered independent directors pursuant to SEC and Nasdaq rules. Mr. Danilitskiy, however, served as our Chairman and Chief Executive Officer through September 14, 2014, and thus does not meet Nasdaq's independence requirements. As such, the Company has opted to follow its home country rules in relation to the independence of our Compensation Committee members, which allows for non-independent directors to serve on the Compensation Committee. Accordingly, we have opted not to comply with independence requirements for compensation committees set forth in Nasdaq Governance Rule 5605(d)(2) and have supplied Nasdaq with the appropriate notice of our non-compliance.

Our Board of Directors adopted a compensation committee charter, providing for the following responsibilities of the Compensation Committee:

- reviewing and making recommendations to the board regarding our compensation policies and forms of compensation provided to our directors and officers;
- reviewing and making recommendations to the board regarding bonuses for our officers and other employees;
- administering our incentive-compensation plans for our directors and officers;
- reviewing and assessing the adequacy of the charter annually;
- administering our share option plans, if they are established in the future, in accordance with the terms thereof; and
- such other matters that are specifically delegated to the compensation committee by our Board of Directors from time to time.

Governance and Nominating Committee. Our governance and nominating committee consists of Jiehui Fan, Linchai Zhang and Anatoly Danilitskiy. Except for Mr. Danilitskiy, the members of the Governance and Nominating Committee do not have any direct or indirect material relationship with us other than as a director. Linchai Zhang serves as Chair of the Governance and Nominating Committee.

Our Board of Directors adopted a governance and nominating committee charter, providing for the following responsibilities of the Governance and Nominating Committee:

- overseeing the process by which individuals may be nominated to our Board of Directors;
- identifying potential directors and making recommendations as to the size, functions and composition of our Board of Directors and its committees;
- reviewing candidates proposed by our stockholders;

- developing the criteria and qualifications for the selection of potential directors; and

- making recommendations to the Board of Directors on new candidates for board membership.

In making nominations, the Governance and Nominating Committee is required to submit candidates who have the highest personal and professional integrity, who have demonstrated exceptional ability and judgment and who shall be most effective, in conjunction with the other nominees to the board, in collectively serving the long-term interests of the stockholders. In evaluating nominees, the Governance and Nominating Committee is required to take into consideration the following attributes, which are desirable for a member of the board: leadership, independence, interpersonal skills, financial acumen, business experiences, industry knowledge, and diversity of viewpoints.

Code of Ethics

On March 19, 2012, our Board of Directors adopted a code of ethics that applies to our directors, officers and employees.

Director Independence

In conformity with Nasdaq's Corporate Governance Rules, the Company, as a foreign private issuer, has opted not to comply with Nasdaq's independence requirements. Accordingly, our Board of Directors has determined that two of our directors, Mses. Jiehui Fan and Linchai Zhang, qualify as independent directors pursuant to the rules of the Nasdaq Marketplace.

D. Employees

As of June 30, 2018, we have a total of 186 full-time employees, all of whom are located in Zhenjiang, Jiangsu Province, the PRC. We do not experience any significant seasonal fluctuations in our number of employees. The number of temporary employees employed by us during the periods under review was insignificant.

None of our employees are represented by a union. We believe that our relationship with our employees has historically been good and this is expected to continue.

The functional distribution of our full-time employees as of June 30, 2018 is as follows:

Function	Number
Management	6
Sales and marketing	7
Research and Development	18
Safety and environmental protection	15
Production	11
Procurement	5
New Material	12
Logistics	2
Quality control	11
Administration	33
Production workers	66
Total	186

E. Share Ownership

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of November 14, 2017:

- each person known by us to be the beneficial owner of more than 5% of our outstanding ordinary shares;
- each of our executive officers and directors; and

· all our executive officers and directors as a group.

The beneficial ownership of ordinary shares is determined in accordance with the rules of the SEC and generally includes any ordinary shares over which a person exercises sole or shared voting or investment power. For purposes of the table below, we deem shares subject to options, warrants or other exercisable or convertible securities that are exercisable or convertible currently or within 60 days of June 14, 2018, to be outstanding and to be beneficially owned by the person holding the options, warrants or other currently exercisable or convertible securities for the purposes of computing the percentage ownership of that person but we do not treat them as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares, except to the extent authority is shared by spouses under community property laws.

Name and Address of Beneficial Owner⁽¹⁾	Amount of Beneficial Ownership	Approximate Percentage of Outstanding Ordinary Shares⁽²⁾	
Directors and Executive Officers:			
Long Yi, CEO and Director	100,000	0.8	%
Hongming Dong, CFO	-	-	
Jiehui Fan, Director	-	-	
Linchai Zhang, Director	-	-	
Changuang Wu, Director	-	-	
Anatoly Danilitskiy, Director	-	-	
All directors and executive officers as a group (six individuals)	100,000	0.8	%
Five Percent Holders:			
Xiang Gao	2,056,340	16.2	%
Kai Wang	2,204,854	17.4	%
Jianxin Yang	913,928	7.2	%

(1) Unless otherwise noted, the business address for each of our beneficial owners is c/o Delta Technology Holdings Limited, 16 Kaifa Avenue, Danyang, Jiangsu, China.

(2) The percentage of shares beneficially owned is based on 12,660,314 ordinary shares outstanding as of June 14, 2018.

75

Item 7. Major Shareholders and Related Party Transactions**A. Major Shareholders**

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

B. Related Party Transactions

Guarantees in favor of the Company’s bank borrowings were received from Mr. Chao Xin, our former Chief Executive Officer, Chairman and the majority shareholder in the Company, for the year ended June 30, 2018, 2017 and 2016. The following is a summary of the Company’s bank borrowings as of June 30, 2017 and 2016:

Bank name	2017	2017
Dantu High Credit Cooperatives	\$7,036,021	\$7,036,021
Danyang Branch of China Construction Bank	3,309,750	3,309,750
Bank of Danyang Jiangsu Branch	3,731,894	3,731,894
Zhenjiang Branch of Shanghai Pudong Development Bank	5,826,474	5,826,474
Huaxia Bank Zhenjiang Branch	5,900,080	5,900,080
Minsheng Bank Zhenjiang Branch	3,453,224	3,453,224
Industrial and Commercial Bank of China Dantu District Branch	12,200,195	12,200,195
CITIC Bank Zhenjiang Branch	5,826,474	5,826,474
China Merchants Bank Danyang Branch	19,130,011	19,130,011
	\$66,414,123	\$68,313,619

The interest expenses for the years ended June 30, 2018, 2017 and 2016 were \$1,388,102, \$3,254,991 and \$3,710,945, respectively.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Statements

We have appended consolidated financial statements filed as part of this report. See Item 18 “Financial Statements.”

Legal Proceedings

The Company is involved in various legal actions during the year ended June 30, 2018. As of June 30, 2018, the Company was involved in 16 lawsuits in China, of which the Company was plaintiff in relation to 3 trade business disputes, and the Company was defendant in relation to 13 financial loan disputes. The 3 trade business disputes with an aggregated claim of \$291,892 have been adjudicated by the Court in favor of the Company to collect delinquent balances and interest from its customers. 1 out of 13 financial loan disputes with an aggregated balance of \$3,455,962 have been adjudicated by the Court against the Company. 8 out of 13 financial loan disputes have been adjudicated by the court that the Company will be responsible for the guaranteed amount of \$20,659,772 as guarantor to the debtors if the debtors fail to settle the delinquent amount. The remaining 4 out of 13 financial loan disputes with an aggregated balance \$22,074,374 have been adjudicated by the court against the Company and the recourse rights of three bank loans with an aggregated balance \$16,184,708 have been transferred out soon afterwards.

The two trade business disputes, involving an aggregated claim of \$285,818 were instituted by Jiangsu Delta to delinquent balances and interest from its customers. These disputes have been adjudicated by the People’s Court in favor of Jiangsu Delta. Details of these proceedings are set forth below:

On November 14, 2016, the Jiangsu Province Danyang City Court (“Danyang Court”) ruled in favor of Jiangsu Delta in a proceeding which Jiangsu Delta instituted against Danyang City Taiyanghua Glass Manufacture Co., Ltd. and Weixing Sun for breach of contract. The Dantu Court ordered the defendants to pay RMB 423,375 (approximately US\$62,450) plus accumulated interest to Jiangsu Delta Jiangsu Delta.

Also on November 14, 2016, the Jiangsu Province Zhenjiang City Intermediate Court (“Zhenjiang Intermediate Court”) ruled in favor of Jiangsu Delta in a proceeding which Jiangsu Delta instituted against Shandong Yuncheng Zhongxin Industry Co., Ltd. for breach of contract. The Zhenjiang Intermediate Court ordered Shandong Yuncheng Zhongxin Industry Co., Ltd. to pay Jiangsu Delta RMB 1,514,300 (approximately US\$223,368).

Three out of the five financial loan disputes, involving an aggregate balance of \$3,575,673, have been adjudicated by the People's Court against Jiangsu Delta. One of these financial loan disputes involves a balance of \$4,417,765 and the other one, which is still on trial, has a balance \$3,499,219. Details of these proceedings are set forth below:

On January 20, 2017, Jiangsu Province Zhenjiang City Runzhou District Court ("Runzhou District Court") ruled in favor of the plaintiff, China Merchants Bank Zhenjiang Branch, in its claim to freeze the defendants' assets in an aggregated amount of RMB 5,000,000 (approximately USD737,528). The defendants include Jiangsu Delta, Danyang City Xingangjing Milengdai Co., Ltd., Xujun Sun and Dan Lu.

On May 4, 2017, the Runzhou District Court entered a judgment in favor of China Merchants Bank Zhenjiang Branch in a proceeding instituted against Jiangsu Delta, Danyang Meike Glasses Limited Company and four other individuals. The court ruled that Danyang Meike Glasses Limited Company shall pay the plaintiff its loan principal and accrued interest of RMB 7,150,781.8 (approximately US\$1,054,781), and the other defendants, including Jiangsu Delta, shall be jointly and severally liable as guarantors.

On May 4, 2017, Runzhou District Court entered a judgment in favor of China Merchants Bank Zhenjiang Branch in a proceeding instituted against Jiangsu Delta, Zhenjiang City Liangming Guangxue Limited Company and other two individuals. The court ruled that Zhenjiang City Liangming Guangxue Limited Company shall pay the plaintiff its loan principal and accrued interests of RMB 12,090,133 (approximately US\$1,783,363), and the other defendants, including Jiangsu Delta, shall be jointly and severally liable as guarantors.

Pin An Bank Nanjing Branch instituted proceedings in Nanjing City Gulou District Court against Jiangsu Delta, Jiangsu Xinlong Yurong Limited Company, Danyang City Development Zone High-Tech Industry Development Limited Company and two other individuals, for the repayment of the principal of a loan and accrued interests thereon amounting to RMB 29,949,792 (approximately US\$4,417,765). No final judgement has been made as of the date of this report.

China Construction Bank Danyang Branch instituted proceedings in the Danyang Court against Jiangsu Delta, Jiangsu Tiangong Tool Development Co., Ltd., Xin Chao and Qian Yang for breach of contract and for the repayment of the Jiangsu Delta principal of a loan and accrued interests amounting to RMB 23,722,608.2 (approximately USD3,499,219). As of the date of this report, no judgement has been rendered.

Dividends

We have not paid dividends on our ordinary shares and do not anticipate paying such dividends in the foreseeable future. We will rely on dividends from our Hong Kong and China operation entities for our funds and Hong Kong and Chinese regulations may limit the amount of funds distributed to us from Hong Kong and Chinese operation entities which will affect our ability to declare any dividends.

B. Significant Changes

None.

ITEM 9. THE OFFER AND LISTING**A. Offer and Listing Details**

Our units, Class A Shares and redeemable warrants have been listed on the NASDAQ Capital Market under the symbols CISAU, CISAA and CISAW, since December 19, 2012. Beginning March 18, 2013, the Class A Shares and redeemable warrants underlying the units began to trade separately on a voluntary basis. The units and Class A Shares were delisted on October 1, 2014 following the mandatory separation of the units and the redemption of Class A Shares in accordance with our Amended and Restated Memorandum and Articles of Association. The trading of redeemable warrants was suspended until our ordinary shares were successfully listed on the NASDAQ Capital Market on June 1, 2015. Our ordinary shares and redeemable warrants are currently trading under the ticker symbol “DELT” and “DELTW”, respectively.

The following table sets forth the range of high and low market prices for our redeemable warrants for the periods indicated, as reported by the NASDAQ Capital Market. These prices do not include retail mark-ups, markdowns, or commissions.

	Warrants	
	High	Low
Annual Highs and Lows		
Fiscal Year Ended June 30, 2014	\$0.47	\$0.11
Fiscal Year Ended June 30, 2015	\$1.48	\$0.12
Fiscal Year Ended June 30, 2016	\$0.50	\$0.02
Fiscal Year Ended June 30, 2017	\$0.1599	\$0.0508
Quarterly Highs and Lows		
2015		
First Quarter (Fiscal quarter ended September 31, 2013)	\$0.47	\$0.12
Second Quarter (Fiscal quarter ended December 31, 2013) ⁽¹⁾	\$0.47	\$0.23
Third Quarter (Fiscal quarter ended March 31, 2014)	\$0.38	\$0.22
Fourth Quarter (Fiscal quarter ended June 30, 2014)	\$1.48	\$0.18
2016		
First Quarter (Fiscal quarter ended September 30, 2015)	\$0.50	\$0.07
Second Quarter (Fiscal quarter ended December 31, 2015)	\$0.16	\$0.02
Third Quarter (Fiscal quarter March 31, 2016)	\$0.30	\$0.04
Fourth Quarter (Fiscal quarter ended June 30, 2016)	\$0.29	\$0.02
2017		
First Quarter (Fiscal quarter ended September 30, 2016)	\$0.39	\$0.06
Second Quarter (Fiscal quarter ended December 31, 2016)	\$0.1599	\$0.0508
Third Quarter (Fiscal quarter ended March 31, 2017)	\$0.1349	\$0.0555
Fourth Quarter (Fiscal quarter ended June 30, 2017)	\$0.1	\$0.036
2018		
First Quarter (Fiscal quarter ended September 30, 2017)	\$0.084	\$0.0101

Monthly Highs and Lows

May 2017	\$0.1	\$0.0508
June 2017	\$0.084	\$0.0499
July 2017	\$0.084	\$0.03
August 2017	\$0.065	\$0.041
September 2017	\$0.0585	\$0.022
October 2017	\$0.0289	\$0.0101

Our ordinary shares commenced trading on the NASDAQ Capital Market on June 1, 2015. The table below shows the monthly high and low prices.

	Ordinary Shares	
	High	Low
Annual Highs and Lows		
Fiscal Year Ended June 30, 2015 ⁽¹⁾	\$ 38.25	\$ 4.56
Fiscal Year Ended June 30, 2016	\$ 5.00	\$ 0.43
Fiscal Year Ended June 30, 2017	\$ 3.14	\$ 0.65
2015		
Fourth Quarter (Fiscal Quarter ended June 30, 2015)	\$ 38.25	\$ 4.56
2016		
First Quarter (Fiscal quarter ended September 30, 2015)	\$ 5.00	\$ 1.63
Second Quarter (Fiscal quarter ended December 31, 2015)	\$ 2.80	\$ 1.08
Third Quarter (Fiscal quarter March 31, 2016)	\$ 1.47	\$ 0.70
Fourth Quarter (Fiscal quarter ended June 30, 2016)	\$ 2.60	\$ 0.43
2017		
First Quarter (Fiscal quarter ended September 30, 2016)	\$ 3.14	\$ 0.65
Second Quarter (Fiscal quarter ended December 31, 2016)	\$ 1.55	\$ 0.72
Third Quarter (Fiscal quarter ended March 31, 2017)	\$ 1.74	\$ 0.74
Fourth Quarter (Fiscal quarter ended June 30, 2017)	\$ 2.91	\$ 1.54
2018		
First Quarter (Fiscal quarter ended September 30, 2017)	\$ 1.76	\$ 0.94
Monthly Highs and Lows		
May 2017	\$ 2.91	\$ 1.99
June 2017	\$ 2.16	\$ 1.66
July 2017	\$ 1.76	\$ 1.13
August 2017	\$ 1.30	\$ 0.94
September 2017	\$ 1.36	\$ 1.03
October 2017	\$ 1.49	\$ 1.04

(1) Our ordinary shares commenced trading on June 1, 2015.

B. Plan of Distribution

Not applicable.

C. Markets

See our disclosures above under “A. Offer and Listing Details.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following represents a summary of certain key provisions of our articles of incorporation and bylaws. The summary does not purport to be a summary of all of the provisions of our articles of incorporation and bylaws. For more complete information you should read our amended and restated articles of incorporation and bylaws, each listed as an exhibit to this report.

Summary

Registered Office. Under our Amended and Restated Memorandum of Association, the address of our registered office is FH Chambers, P.O. Box 4649, Road Town, Tortola, British Virgin Islands.

Objects and Purposes. Under Clause 4(1) of our Amended and Restated Memorandum of Association, we have the capacity to carry on or undertake any business or activity.

Directors. Under Article 74 of our Articles of Association, no contract or transaction between us and one or more of our Directors (an “Interested Director”) or officers, or between us and any of their affiliates (an “Interested Transaction”), will be void or voidable solely for this reason, or solely because the director or officer is present at or participates in

the meeting of our board or committee which authorizes the contract or transaction, or solely because any such director's or officer's votes are counted for such purpose, if:

(a) The material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the our Board of Directors or the committee, and the board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(b) The material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to our shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of our shareholders; or

(c) The contract or transaction is fair as to us as of the time it is authorized, approved or ratified, by the board, a committee or the Shareholders.

A majority of independent directors must vote in favor of any Interested Transaction and determine that the terms of the Interested Transaction are no less favorable to us than those that would be available to us with respect to such a transaction from unaffiliated third parties.

Our board shall review and approve all payments made to the founders, officers, directors, special advisors, consultants and their respective affiliates and any Interested Director shall abstain from such review and approval.

Rights, Preferences and Restrictions Attaching to Our Ordinary Shares. We are authorized to issue 155,000,000 shares divided into: (i) 150,000,000 ordinary shares; and (ii) 5,000,000 preferred shares, each par value \$0.0001 per share. As of November 14, 2017, 10,061,679 ordinary shares were outstanding. Each share, regardless if it is part of a class of ordinary shares, has the right to one vote at a meeting of shareholders or on any resolution of shareholders, the right to an equal share in any dividend paid by us, and the right to an equal share in the distribution of surplus assets. We may by a resolution of the Board of Directors redeem our shares for such consideration as the Board of Directors determines.

Alteration of Rights. If, at any time, our authorized number of shares is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not we are being wound-up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate meeting of the holders of the shares of the class at which meeting the necessary quorum shall be two persons at least holding or representing by proxy one-third of the issued shares of the class.

Meetings. At least 10 days' (exclusive of the date that notice is given and the date on which event for which notice is given is to take effect) notice of a meeting shall be given to each shareholder entitled to attend and vote thereat, stating the date, place, and time at which the meeting is to be held, and if different, the record date for determining shareholders entitled to attend and vote at the meeting, and the general nature of the business to be conducted at the meeting. A meeting shall, notwithstanding the fact that it is called on shorter notice than otherwise required, be deemed to have been properly called if it is attended, or such notice is waived, by 90% of the shareholders entitled to attend and vote thereat. The inadvertent failure to give notice of a meeting to, or the non-receipt of a notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

Limitations on the Right to Own Securities. There are no limitations on the rights to own our securities, or limitations on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our securities, contained in our Amended and Restated Memorandum and Articles of Association (or under British Virgin Islands law).

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in "Item 4. Information on the Company," "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions," or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

BVI Exchange Controls

There are no material exchange controls restrictions on payment of dividends, interest or other payments to the holders of our ordinary shares or on the conduct of our operations in the BVI. There are no material BVI laws that impose any material exchange controls on us or that affect the payment of dividends, interest or other payments to

nonresident holders of our ordinary shares. BVI law and our memorandum and articles of association do not impose any material limitations on the right of non-residents or foreign owners to hold or vote our ordinary shares.

PRC Exchange Controls

Under the Foreign Currency Administration Rules promulgated in 1996 and revised in 1997, and various regulations issued by SAFE and other relevant PRC government authorities, RMB is convertible into other currencies without prior approval from SAFE only to the extent of current account items, such as trade related receipts and payments, interest and dividends and after complying with certain procedural requirements. The conversion of RMB into other currencies and remittance of the converted foreign currency outside PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from SAFE or its local office. Payments for transactions that take place within China must be made in RMB. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local office. Unless otherwise approved, domestic enterprises must convert all of their foreign currency proceeds into RMB.

On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, which became effective as of November 1, 2005. According to the notice, a special purpose company, or SPV, refers to an offshore company established or indirectly controlled by PRC residents for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprises. Prior to establishing or assuming control of an SPV, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. The notice applies retroactively. As a result, PRC residents who have established or acquired control of these SPVs that previously made onshore investments in China were required to complete the relevant overseas investment foreign exchange registration procedures by March 31, 2006. These PRC residents must also amend the registration with the relevant SAFE branch in the following circumstances: (i) the PRC residents have completed the injection of equity investment or assets of a domestic company into the SPV; (ii) the overseas funding of the SPV has been completed; (iii) there is a material change in the capital of the SPV. Under the rules, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the violator, including restrictions on the payment of dividends and other distributions to its offshore parent company, and may also subject the violators to penalties under the PRC foreign exchange administration regulations.

On August 29, 2008, SAFE promulgated Notice 142 which regulates the conversion by a foreign-funded enterprise of foreign currency into RMB by restricting how the converted RMB may be used. Notice 142 requires that RMB funds converted from the foreign currency capital of a foreign-funded enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of RMB funds converted from the foreign currency capital of a foreign-funded enterprise. The use of such RMB capital may not be changed without SAFE's approval, and may not, in any case, be used to repay or prepay RMB loans if such loans are outstanding. Violations of Notice 142 will result in severe penalties, such as heavy fines as set out in the relevant foreign exchange control regulations.

E. Taxation

British Virgin Islands Taxation

Under the law of the British Virgin Islands as currently in effect, a holder of our shares who is not a resident of the British Virgin Islands is not liable for British Virgin Islands income tax on dividends paid with respect to our shares, and all holders of our securities are not liable to the British Virgin Islands for income tax on gains realized on the sale or disposal of such securities. The British Virgin Islands does not impose a withholding tax on dividends paid by a company incorporated or re-registered under the BVI Act.

There are no capital gains, gift or inheritance taxes levied by the British Virgin Islands on companies incorporated or re-registered under the BVI Act. In addition, securities of companies incorporated or re-registered under the BVI Act are not subject to transfer taxes, stamp duties or similar charges.

There is no income tax treaty or convention currently in effect between the United States and the British Virgin Islands, although a Tax Information Exchange Agreement is in force.

PRC Taxation

Under the PRC Enterprise Income Tax Law, or the EIT Law, and its implementation rules that became effective on January 1, 2008, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income. A circular issued by the State Administration of Taxation on April 22, 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with its “de facto management body” located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (iv) at least half of the enterprise’s directors with voting right or senior management reside in the PRC. In addition, the State Administration of Taxation issued a bulletin on August 3, 2011, effective as of September 1, 2011, to provide more guidance on the implementation of the above circular. The bulletin clarified certain matters relating to resident status determination, post-determination administration and competent tax authorities. It also specifies that when provided with a copy of a PRC tax resident determination certificate from a resident PRC-controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the PRC-sourced dividends, interest and royalties to the PRC-controlled offshore incorporated enterprise. Although both the circular and the bulletin only apply to offshore enterprises controlled by PRC enterprises and not those by PRC individuals, the determination criteria set forth in the circular and administration clarification made in the bulletin may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax residency status of offshore enterprises and the administration measures should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals. If we are deemed to be a PRC resident enterprise, dividends distributed to our non-PRC enterprise shareholders by us, or the gain our non-PRC enterprise shareholders may realize from the transfer of our ordinary shares, may be treated as PRC-sourced income and therefore be subject to a 10% PRC withholding tax pursuant to the EIT Law.

U.S. Federal Income Taxation

General

The following are the material U.S. federal income tax consequences to an investor of the acquisition, ownership and disposition of our securities.

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to a beneficial owner of our securities that is treated for U.S. federal income tax purposes as:

- an individual citizen or resident of the United States;

· a corporation (or other entity treated as a corporation) that is created or organized (or treated as created or organized) in or under the laws of the United States, any state thereof or the District of Columbia;

· an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or

· a trust if (i) a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust, or (ii) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a beneficial owner of our securities is not described as a U.S. Holder and is not an entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes, such an owner will be considered a "Non-U.S. Holder." The material U.S. federal income tax consequences of the acquisition, ownership and disposition of our securities applicable specifically to Non-U.S. Holders are described below under the heading "Non-U.S. Holders."

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, Treasury regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These authorities are subject to change or differing interpretations, possibly on a retroactive basis.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular holder of our securities based on such holder's individual circumstances. In particular, this discussion considers only holders that own and hold our securities as capital assets within the meaning of Section 1221 of the Code, and does not address the alternative minimum tax. In addition, this discussion does not address the U.S. federal income tax consequences to holders that are subject to special rules, including:

- financial institutions or financial services entities;
- broker-dealers;
- persons that are subject to the mark-to-market accounting rules under Section 475 of the Code;
- tax-exempt entities;
- governments or agencies or instrumentalities thereof;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;

- certain expatriates or former long-term residents of the United States;
- persons that actually or constructively own 5% or more of our public shares;
- persons that acquired our securities pursuant to the exercise of employee options, in connection with employee incentive plans or otherwise as compensation;
- persons that hold our securities as part of a straddle, constructive sale, hedging, conversion or other integrated transaction;
- persons whose functional currency is not the U.S. dollar;
- controlled foreign corporations; or passive foreign investment companies.

This discussion does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, state, local or non-U.S. tax laws or, except as discussed herein, any tax reporting obligations applicable to a holder of our securities. Additionally, this discussion does not consider the tax treatment of partnerships or other pass-through entities or persons who hold our securities through such entities. If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of our securities, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. This discussion also assumes that any distributions made (or deemed made) by us on our securities and any consideration received (or deemed received) by a holder in consideration for the sale or other disposition of our securities will be in U.S. dollars.

We have not sought, and will not seek a ruling from the Internal Revenue Service (“IRS”) or an opinion of counsel as to any U.S. federal income tax consequence described herein. The IRS may disagree with the description herein, and its determination may be upheld by a court. Moreover, there can be no assurance that future legislation, regulations, administrative rulings or court decisions will not adversely affect the accuracy of the statements in this discussion.

THIS DISCUSSION OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR SECURITIES IS NOT TAX ADVICE. EACH HOLDER OF OUR SECURITIES IS URGED TO CONSULT ITS OWN TAX ADVISOR WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR SECURITIES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL, AND NON-U.S. TAX LAWS, AS WELL AS U.S. FEDERAL TAX LAWS AND ANY APPLICABLE TAX TREATIES.

U.S. Holders

Taxation of Cash Distributions

Subject to the passive foreign investment company (“PFIC”) rules discussed below, a U.S. Holder generally will be required to include in gross income as ordinary income the amount of any cash dividend paid on our shares. A cash distribution on such shares generally will be treated as a dividend for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Such dividend generally will not be eligible for the dividends-received deduction generally allowed to domestic corporations in respect of dividends received from other domestic corporations. The portion of such distribution, if any, in excess of such earnings and profits generally will constitute a return of capital that will be applied against and reduce (but not below zero) the U.S. Holder’s adjusted tax basis in such shares. Any remaining excess will be treated as gain from the sale or other taxable disposition of such shares and will be treated as described under “— *Taxation on the Disposition of Securities*” below.

With respect to non-corporate U.S. Holders, dividends on our shares may be subject to U.S. federal income tax at the lower applicable long-term capital gains tax rate (see “— *Taxation on the Disposition of Securities* ” below) provided that (1) such shares are readily tradable on an established securities market in the United States, (2) we are not a PFIC, as discussed below, for either the taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. Under published IRS authority, our shares are considered for purposes of clause (1) above to be readily tradable on an established securities market in the United States only if they are listed on certain exchanges, which presently include the NASDAQ Capital Market. Although our ordinary shares and warrants are currently listed and traded on the NASDAQ Capital Market, we cannot guarantee that our securities will continue to be listed on the NASDAQ Capital Market. U.S. Holders should consult their own tax advisors regarding the availability of the lower rate for any cash dividends paid with respect to our securities.

Possible Constructive Distributions with Respect to Redeemable Warrants

The terms of each redeemable warrant provide for an adjustment to the number of ordinary shares for which the redeemable warrant may be exercised in certain events. An adjustment that has the effect of preventing dilution generally is not taxable. However, the U.S. Holders of the redeemable warrants would be treated as receiving a constructive distribution from us if, for example, the adjustment increases the redeemable warrant holders' proportionate interest in our assets or earnings and profits (e.g., through an increase in the number of ordinary shares that would be obtained upon exercise) as a result of a distribution of cash to the holders of our shares, which is taxable to the U.S. Holders of such shares as described under "Taxation of Cash Distributions" above. Such constructive distribution would be subject to tax as described under that section in the same manner as if the U.S. Holders of the redeemable warrants received a cash distribution from us equal to the fair market value of such increased interest.

Taxation on the Disposition of Securities

Upon a sale or other taxable disposition of our securities (which, in general, would include a distribution in connection with our liquidation or a redemption of redeemable warrants), and subject to the PFIC rules discussed below, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized and the U.S. Holder's adjusted tax basis in the securities. See "— Exercise or Lapse of Redeemable Warrants" below for a discussion regarding a U.S. Holder's basis in the ordinary share acquired pursuant to the exercise of a warrant.

The regular U.S. federal income tax rate on capital gains recognized by U.S. Holders generally is the same as the regular U.S. federal income tax rate on ordinary income, except that long-term capital gains recognized by non-corporate U.S. Holders generally are subject to U.S. federal income tax at reduced rates of tax. Capital gain or loss will constitute long-term capital gain or loss if the U.S. Holder's holding period for the securities exceeds one year. The deductibility of capital losses is subject to various limitations.

Additional Taxes

U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% Medicare contribution tax on unearned income, including, without limitation, dividends on, and gains from the sale or other taxable disposition of, our securities, subject to certain limitations and exceptions. Under recently issued regulations, in the absence of a special election, such unearned income generally would not include income inclusions under the qualified electing fund, or QEF rules discussed below under "— Passive Foreign Investment Company Rules," but would include distributions of earnings and profits from a QEF. U.S. Holders should consult their own tax advisors regarding the effect, if any, of such tax on their ownership and disposition of our securities.

Exercise or Lapse of Redeemable Warrants

Subject to the PFIC rules discussed below, a U.S. Holder generally will not recognize gain or loss upon the acquisition of ordinary shares on the exercise of redeemable warrants for cash. Ordinary shares acquired pursuant to the exercise of redeemable warrants for cash will have a tax basis equal to the U.S. Holder's tax basis in the redeemable warrants, increased by the amount paid to exercise the redeemable warrants. The holding period of such ordinary shares should begin on the day after the date of exercise of the redeemable warrants. If redeemable warrants are allowed to lapse unexercised, a U.S. Holder generally will recognize a capital loss equal to such holder's adjusted tax basis in the redeemable warrants.

The tax consequences of a cashless exercise of redeemable warrants are not clear under current tax law. A cashless exercise may be tax-free, either because it is not a realization event (i.e., not a transaction in which gain or loss is realized) or because the transaction is treated as a recapitalization for U.S. federal income tax purposes. In either tax-free situation, a U.S. Holder's tax basis in the ordinary shares received would equal the U.S. Holder's basis in the redeemable warrants. If the cashless exercise were treated as not being a realization event, the U.S. Holder's holding period in the ordinary shares could be treated as commencing on the date following the date of exercise of the redeemable warrants. If the cashless exercise were treated as a recapitalization, the holding period of the ordinary shares received would include the holding period of the redeemable warrants.

It is also possible that a cashless exercise could be treated as a taxable exchange in which gain or loss is recognized. In such event, a U.S. Holder could be deemed to have surrendered a number of redeemable warrants with a fair market value equal to the exercise price for the number of redeemable warrants deemed exercised. For this purpose, the number of redeemable warrants deemed exercised would be equal to the number of ordinary shares issued pursuant to the cashless exercise of the redeemable warrants. In this situation, the U.S. Holder would recognize capital gain or loss in an amount equal to the difference between the fair market value of the redeemable warrants deemed surrendered to pay the exercise price and the U.S. Holder's tax basis in such redeemable warrants deemed surrendered. Such gain or loss would be long-term or short-term depending on the U.S. Holder's holding period in the redeemable warrants. In this case, a U.S. Holder's tax basis in the ordinary shares received would equal the sum of the fair market value of the redeemable warrants deemed surrendered to pay the exercise price and the U.S. Holder's tax basis in the redeemable warrants deemed exercised, and a U.S. Holder's holding period for the ordinary shares should commence on the date following the date of exercise of the redeemable warrants. There also may be alternative characterizations of any such taxable exchange that would result in similar tax consequences, except that a U.S. Holder's gain or loss would be short-term.

Due to the absence of authority on the U.S. federal income tax treatment of a cashless exercise of redeemable warrants it is unclear which, if any, of the alternative tax consequences and holding periods described above would be adopted by the IRS or a court of law. Accordingly, U.S. Holders should consult their tax advisors regarding the tax consequences of a cashless exercise of redeemable warrants.

Passive Foreign Investment Company Rules

A foreign (i.e., non-U.S.) corporation will be a PFIC if at least 75% of its gross income in a taxable year of the foreign corporation, including its pro rata share of the gross income of any corporation in which it is considered to own at least 25% of the shares by value, is passive income. Alternatively, a foreign corporation will be a PFIC if at least 50% of its assets in a taxable year of the foreign corporation, ordinarily determined based on fair market value and averaged quarterly over the year, including its pro rata share of the assets of any corporation in which it is considered to own at least 25% of the shares by value, are held for the production of, or produce, passive income. Passive income generally includes dividends, interest, rents and royalties (other than certain rents or royalties derived from the active conduct of a trade or business) and gains from the disposition of passive assets.

Based on the composition of our assets and the nature of the Company's income and subsidiaries' income for our taxable year ended June 30, 2015, we do not expect to be treated as a PFIC for such year and we do not expect to be one for our taxable year ending June 30, 2016 or 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 a U.S. Holder owned our ordinary shares at any time prior to our acquisition of Elite, such U.S. Holder 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 such U.S. Holder made either a valid and timely QEF election or a valid and timely mark-to-market election, in each case as described below.

If we are determined to be a PFIC for any taxable year (or portion thereof) that is included in the holding period of a U.S. Holder of our shares or redeemable warrants and, in the case of our shares, the U.S. Holder did not make either a timely qualified electing fund (“QEF”) election for our first taxable year as a PFIC in which the U.S. Holder held (or was deemed to hold) such shares, a QEF election along with a purging election, or a mark-to-market election, each as described below, such holder generally will be subject to special rules for regular U.S. federal income tax purposes with respect to:

any gain recognized by the U.S. Holder on the sale or other disposition of its shares or redeemable warrants; and

any “excess distribution” made to the U.S. Holder (generally, any distributions to such U.S. Holder during a taxable year of the U.S. Holder that are greater than 125% of the average annual distributions received by such U.S. Holder in respect of the shares or warrants during the three preceding taxable years of such U.S. Holder or, if shorter, such U.S. Holder’s holding period for the shares or warrants).

Under these rules,

the U.S. Holder’s gain or excess distribution will be allocated ratably over the U.S. Holder’s holding period for the shares or redeemable warrants;

the amount allocated to the U.S. Holder’s taxable year in which the U.S. Holder recognized the gain or received the excess distribution, or to the period in the U.S. Holder’s holding period before the first day of our first taxable year in which we are a PFIC, will be taxed as ordinary income;

the amount allocated to other taxable years (or portions thereof) of the U.S. Holder and included in its holding period will be taxed at the highest tax rate in effect for that year and applicable to the U.S. Holder; and

the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such other taxable year of the U.S. Holder.

In general, if we are determined to be a PFIC, a U.S. Holder may avoid the PFIC tax consequences described above in respect to our shares by making a timely QEF election (or a QEF election along with a purging election, as described below). Pursuant to the QEF election, a U.S. Holder will be required to include in income its pro rata share of our net capital gains (as long-term capital gain) and other earnings and profits (as ordinary income), on a current basis, in each case whether or not distributed, in the taxable year of the U.S. Holder in which or with which our taxable year ends. A U.S. Holder may make a separate election to defer the payment of taxes on undistributed income inclusions under the QEF rules, but if deferred, any such taxes will be subject to an interest charge.

A U.S. Holder may not make a QEF election with respect to its redeemable warrants. As a result, if a U.S. Holder sells or otherwise disposes of a redeemable warrant (other than upon exercise of the redeemable warrant), any gain recognized generally will be subject to the special tax and interest charge rules treating the gain as an excess distribution, as described above, if we were a PFIC at any time during the period the U.S. Holder held the redeemable warrants. If a U.S. Holder that exercises such redeemable warrants properly makes a QEF election with respect to the newly acquired ordinary shares (or has previously made a QEF election with respect to our shares), the QEF election will apply to the newly acquired ordinary shares, but the adverse tax consequences relating to PFIC shares, adjusted to

take into account the current income inclusions resulting from the QEF election, will continue to apply with respect to such newly acquired ordinary shares (which generally will be deemed to have a holding period for purposes of the PFIC rules that includes the period the U.S. Holder held the redeemable warrants), unless the U.S. Holder makes a purging election with respect to such shares. The purging election creates a deemed sale of such shares at their fair market value. The gain recognized by the purging election will be subject to the special tax and interest charge rules treating the gain as an excess distribution, as described above. As a result of the purging election, the U.S. Holder will increase the adjusted tax basis in its ordinary shares acquired upon the exercise of the redeemable warrants by the gain recognized and will also have a new holding period in such ordinary shares for purposes of the PFIC rules.

The QEF election is made on a shareholder-by-shareholder basis and, once made, can be revoked only with the consent of the IRS. A U.S. Holder generally makes a QEF election by attaching a completed IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund), including the information provided in a PFIC annual information statement, to a timely filed U.S. federal income tax return for the taxable year to which the election relates. Retroactive QEF elections generally may be made only by filing a protective statement with such return and if certain other conditions are met or with the consent of the IRS.

In order to comply with the requirements of a QEF election, a U.S. Holder must receive certain information from us. Upon request from a U.S. Holder, we will endeavor to provide to the U.S. Holder no later than 90 days after the request such information as the IRS may require, including a PFIC annual information statement, in order to enable the U.S. Holder to make and maintain a QEF election. However, there is no assurance that we will have timely knowledge of our status as a PFIC in the future or of the required information to be provided.

If a U.S. Holder has made a QEF election with respect to our shares and the special tax and interest charge rules do not apply to such shares (because of a timely QEF election for our first taxable year as a PFIC in which the U.S. Holder holds (or is deemed to hold) such shares or a QEF election, along with a purge of the PFIC taint pursuant to a purging election, as described above), any gain recognized on the sale or other taxable disposition of our shares generally will be taxable as capital gain and no interest charge will be imposed. As discussed above, for regular U.S. federal income tax purposes, U.S. Holders of a QEF are currently taxed on their pro rata shares of the QEF's earnings and profits, whether or not distributed. In such case, a subsequent distribution of such earnings and profits that were previously included in income generally should not be taxable as a dividend to such U.S. Holders. The adjusted tax basis of a U.S. Holder's shares in a QEF will be increased by amounts that are included in income, and decreased by amounts distributed but not taxed as dividends, under the above rules. Similar basis adjustments apply to property if by reason of holding such property the U.S. Holder is treated under the applicable attribution rules as owning shares in a QEF.

Although a determination as to our PFIC status will be made annually, the initial determination that we are a PFIC generally will apply for subsequent years to a U.S. Holder who held shares or redeemable warrants while we were a PFIC, whether or not we meet the test for PFIC status in those subsequent years, unless such U.S. Holder made a purging election as described below. A U.S. Holder who makes the QEF election discussed above for our first taxable year as a PFIC in which the U.S. Holder holds (or is deemed to hold) our shares, however, will not be subject to the PFIC tax and interest charge rules discussed above in respect to such shares. In addition, such U.S. Holder will not be subject to the QEF inclusion regime with respect to such shares for any of our taxable years that end within or with a taxable year of the U.S. Holder and in which we are not a PFIC. On the other hand, if the QEF election is not effective for each of our taxable years in which we are a PFIC and during which the U.S. Holder holds (or is deemed to hold) our shares, the PFIC rules discussed above will continue to apply to such shares unless the holder files on a timely filed U.S. income tax return (including extensions) a QEF election and a purging election to recognize under the rules of Section 1291 of the Code any gain that the U.S. Holder would otherwise recognize if the U.S. Holder had sold our shares for their fair market value on the "qualification date." The qualification date is the first day of our tax year in which we qualify as a QEF with respect to such U.S. Holder. The purging election can only be made if such U.S. Holder held our ordinary shares on the qualification date. The gain recognized by the purging election will be subject to the special tax and interest charge rules treating the gain as an excess distribution, as described above. As a result of the purging election, the U.S. Holder will increase the adjusted tax basis in its ordinary shares by the amount of the gain recognized and will also have a new holding period in the shares for purposes of the PFIC rules.

If a U.S. Holder did not make a timely "mark-to-market" election (as described above), and if we were a PFIC at any time during the period such U.S. Holder held our ordinary shares, then such ordinary shares will continue to be treated as stock of a PFIC with respect to such U.S. Holder even if we cease to be a PFIC in a future year, unless such U.S.

Holder makes a “purging election” for the year we cease to be a PFIC. A “purging election” creates a deemed sale of such ordinary shares at their fair market value on the last day of the last year in which we are treated as a PFIC. The gain recognized by the purging election will be subject to the special tax and interest charge rules treating the gain as an excess distribution, as described above. As a result of the purging election, such U.S. Holder will have a new tax basis (equal to the fair market value of the ordinary shares on the last day of the last year in which we are treated as a PFIC) and tax holding period (which new holding period will begin the day after such last day) in such ordinary shares.

As an alternative to the QEF election, if a U.S. Holder, at the close of its taxable year, owns shares in a PFIC that are treated as marketable stock, the U.S. Holder may make a mark-to-market election with respect to such shares for such taxable year. If the U.S. Holder makes a valid mark-to-market election for the first taxable year of the U.S. Holder in which the U.S. Holder holds (or is deemed to hold) our shares and for which we are determined to be a PFIC, such holder generally will not be subject to the PFIC rules described above in respect to its shares. Instead, in general, the U.S. Holder will include as ordinary income each year the excess, if any, of the fair market value of its shares at the end of its taxable year over the adjusted tax basis in its shares. The U.S. Holder also will be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted tax basis of its shares over the fair market value of its shares at the end of its taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). The U.S. Holder's adjusted tax basis in its shares will be adjusted to reflect any such income or loss amounts, and any further gain recognized on a sale or other taxable disposition of the shares will be treated as ordinary income. Currently, a mark-to-market election may not be made with respect to our redeemable warrants.

The mark-to-market election is available only for stock that is regularly traded on a national securities exchange that is registered with the Securities and Exchange Commission, including the NASDAQ Capital Market, or on a foreign exchange or market that the IRS determines has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. Although our ordinary shares are listed and traded on the NASDAQ Capital Market, we cannot guarantee that our shares will continue to be listed and traded on the NASDAQ Capital Market. U.S. Holders should consult their own tax advisors regarding the availability and tax consequences of a mark-to-market election in respect to our shares under their particular circumstances.

If we are a PFIC and, at any time, have a foreign subsidiary that is classified as a PFIC, a U.S. Holder generally would be deemed to own a portion of the shares of such lower-tier PFIC, and generally could incur liability for the deferred tax and interest charge described above if we receive a distribution from, or dispose of all or part of our interest in, or the U.S. Holder otherwise were deemed to have disposed of an interest in, the lower-tier PFIC. Upon request, we will endeavor to cause any lower-tier PFIC to provide to a U.S. Holder no later than 90 days after the request the information that may be required to make or maintain a QEF election with respect to the lower-tier PFIC. However, there is no assurance that we will have timely knowledge of the status of any such lower-tier PFIC, and we do not plan to make annual determinations or otherwise notify U.S. Holders of the PFIC status of any such lower-tier PFIC. There also is no assurance that we will be able to cause the lower-tier PFIC to provide the required information. U.S. Holders are urged to consult their own tax advisors regarding the tax issues raised by lower-tier PFICs.

A U.S. Holder that owns (or is deemed to own) shares in a PFIC during any taxable year of the U.S. Holder may have to file an IRS Form 8621 (whether or not a QEF election or mark-to-market election is or has been made) with such U.S. Holder's U.S. federal income tax return and provide such other information as may be required by the U.S. Treasury Department.

The rules dealing with PFICs and with the QEF and mark-to-market elections are very complex and are affected by various factors in addition to those described above. Accordingly, U.S. Holders of our shares and redeemable warrants should consult their own tax advisors concerning the application of the PFIC rules to our shares and redeemable warrants under their particular circumstances.

Non-U.S. Holders

Dividends (including constructive dividends) paid or deemed paid to a Non-U.S. Holder in respect to our securities generally will not be subject to U.S. federal income tax, unless the dividends are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States).

In addition, a Non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain attributable to a sale or other taxable disposition of our securities unless such gain is effectively connected with its conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States) or the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of sale or other disposition and certain other conditions are met (in which case, such gain from U.S. sources generally is subject to U.S. federal income tax at a 30% rate or a lower applicable tax treaty rate).

Dividends and gains that are effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States) generally will be subject to regular U.S. federal income tax at the same regular U.S. federal income tax rates applicable to a comparable U.S. Holder and, in the case of a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes, may also be subject to an additional branch profits tax at a 30% rate or a lower applicable tax treaty rate.

The U.S. federal income tax treatment of a Non-U.S. Holder's exercise of redeemable warrants, or the lapse of redeemable warrants held by a Non-U.S. Holder, generally will correspond to the U.S. federal income tax treatment of the exercise or lapse of redeemable warrants by a U.S. Holder, as described under " *U.S. Holders — Exercise or Lapse of Redeemable Warrants* " above.

Backup Withholding and Information Reporting

In general, information reporting for U.S. federal income tax purposes should apply to distributions made on our securities within the United States to a U.S. Holder (other than an exempt recipient) and to the proceeds from sales and other dispositions of our securities by a U.S. Holder (other than an exempt recipient) to or through a U.S. office of a broker. Payments made (and sales and other dispositions effected at an office) outside the United States will be subject to information reporting in limited circumstances. In addition, certain information concerning a U.S. Holder's adjusted tax basis in its securities and adjustments to that tax basis and whether any gain or loss with respect to such securities is long-term or short-term also may be required to be reported to the IRS, and certain holders may be required to file an IRS Form 8938 (Statement of Specified Foreign Financial Assets) to report their interest in our securities.

Moreover, backup withholding of U.S. federal income tax at a rate of 28% generally will apply to dividends paid on our securities to a U.S. Holder (other than an exempt recipient) and the proceeds from sales and other dispositions of shares or warrants by a U.S. Holder (other than an exempt recipient), in each case who

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that backup withholding is required; or
- in certain circumstances, fails to comply with applicable certification requirements.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status, under penalties of perjury, on a duly executed applicable IRS Form W-8 or by otherwise establishing an exemption. Backup withholding is not an additional tax. Rather, the amount of any backup withholding will be allowed as a credit against a U.S. Holder's or a Non-U.S. Holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS. Holders are urged to consult their own tax advisors regarding the application of backup withholding and the availability of and procedures for obtaining an exemption from backup withholding in their particular circumstances.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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

We are subject to the informational requirements of the Exchange Act as a foreign private issuer and file reports and other information with the SEC. Reports and other information filed by us with the SEC, including this report, may be inspected and copied at the public reference room of the SEC at 100 F Street, N.E., Washington D.C. 20549. You can also obtain copies of this report by mail from the Public Reference Section of the SEC, 100 F. Street, N.E., Washington D.C. 20549, at prescribed rates. Additionally, copies of this material may be obtained from the SEC's Internet site at <http://www.sec.gov>. The SEC's telephone number is 1-800-SEC-0330.

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

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We deposit surplus funds with Chinese banks earning daily interest. We do not invest in any instruments for trading purposes. Most of our outstanding debt instruments carry fixed rates of interest. Our operations generally are not directly sensitive to fluctuations in interest rates and we currently do not have any long-term debt outstanding. Management monitors the banks' prime rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

Foreign Exchange Risk

While our reporting currency is the U.S. dollar, substantially all of our consolidated revenues and consolidated costs and expenses are denominated in RMB. Substantially all of our assets are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollar and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of equity. An average appreciation (depreciation) of the RMB against the U.S. dollar of 5% would increase (decrease) our comprehensive income by \$1.140 million based on our outstanding revenues, costs and expenses, assets and liabilities denominated in RMB as of June 30, 2018. As of June 30, 2018, our accumulated other comprehensive income was \$3.28 million. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

The value of RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, RMB has not been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in RMB exchange rate and lessen intervention in the foreign exchange market.

Inflation

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase with these increased costs.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our management has concluded that, as of June 30, 2018, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15 (f) under the Exchange Act. Our management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our internal control over financial reporting based on criteria established in the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was not effective as of June 30, 2018.

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

A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Management identified the following material weaknesses in its assessment of the effectiveness of internal control over financial reporting as of June 30, 2018:

The Company had inadequate accounting personnel who is capable of US GAAP and bilingual, and that it did not supply adequate training to new staff in a timely manner, which led to the delay of processing some transactions or events. The weakness resulted in the late filing of Form 20-F for the year ended June 30, 2016, and such weakness had not been fully remediated as of June 30, 2018.

Remediation Efforts to Address Significant Deficiencies

We intend to engage an in-house bilingual accountant who is familiar with US GAAP and is able to represent the Company in future communication with regulators, authorities and other US professional parties.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Jiehui Fan is an independent director as defined by the rules of the NASDAQ Stock Market as well as qualifies as an audit committee financial expert as defined by the rules of the NASDAQ Stock Market, Inc. and Rule 10A-3 under the Exchange Act.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, vice presidents and any other persons who perform similar functions for us. We have posted a copy of our code of business conduct and ethics on our website at <http://www.deltath.com>.

Item 16C PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Centurion (our independent registered public accounting firms). We did not pay any other fees to our independent registered public accounting firm during the periods indicated below.

	For the Year Ended June 30,	
	2018	2017
Audit fees ⁽¹⁾	\$ 137,000	\$ 155,000
Audit related fees ⁽²⁾	-	-
Tax fees ⁽³⁾	-	-

“Audit fees” means the aggregate fees billed for professional services rendered by our independent registered public (1) accounting firm for the audit of our annual financial statements and the review of our comparative interim financial statements.

(2) “Audit related fees” means the fees billed for review of response letter to a regulatory body.

(3) “Tax fees” represents the aggregated fees billed for pro

Pre-Approval of Services

Our board of directors evaluated and approved in advance the scope and cost of the engagement of an auditor before the auditor rendered its audit and non-audit services.

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

The Company is exempt from complying with the listing standards for audit committees as set forth in Rule 10A-3 of the Exchange Act as the Company has opted to comply with its home country corporate governance standards. As such, the Company’s audit committee is not entirely independent as the audit committee is made up of two independent directors and one director who was the CEO of the Company’s predecessor. We do not believe following the Company’s home country rules will negatively affect the audit committee’s independence.

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

Following the Acquisition, the units which were sold in our initial public offering ceased to exist and were mandatorily separated into their component parts: one Class A Share and one warrant to purchase one ordinary share, in order to complete the redemption of Class A Shares and the distribution of the balance of funds held in our Trust Account pursuant to our organizational documents. A total of 3,500,000 Class A Shares were redeemed at \$10.40 per share upon liquidation of the Trust Account and the remainder Class A Shares were converted into Class C Shares which, along with all other classes of ordinary share, were later consolidated into one class of ordinary share.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANTS

See Item 16C above, which is incorporated herein by reference.

ITEM 16G. CORPORATE GOVERNANCE

Pursuant to the home country rule exemption set forth under Nasdaq Listing Rule 5615, we elected to be exempt from the requirement under NASDAQ Listing Rule 5635 to obtain shareholder approval of a business combination. In addition, we also elected to be exempted from NASDAQ Listing Rules 5605 with respect to the composition requirement of the Board of Directors, audit committee, compensation committee and nominating committee. Under NASDAQ Listing Rule 5605, a U.S. domestic listed company is required to have a board of directors of a majority of independent directors and an audit committee, compensation committee and nominating committee, each composed entirely of independent directors, which are not required under the Business Companies Act of British Virgin Islands, our home country. Currently, our audit, compensation and nominating committees each is composed of three members, only two of whom are independent directors.

Except for the foregoing, there are no material differences in the Company's corporate governance practices from those of U.S. domestic companies under the listing standards of the NASDAQ.

ITEM 16H.MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

The financial statements are filed as part of this report beginning on page F-1.

Results of Operations and Financial Condition

Following are the audited financial results for the years ended June 30, 2018, 2017 and 2016 of Delta Technology Holdings Limited.

DELTA TECHNOLOGY HOLDINGS LIMITED

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Pages
Consolidated Financial Statements for the Years Ended June 30, 2018, 2017 and 2016	
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
<u>Consolidated Balance Sheets as at June 30, 2018 and 2017</u>	<u>F-3</u>
<u>Consolidated Statements of Operations and Comprehensive (Loss) Income for the Years Ended June 30, 2018, 2017 and 2016</u>	<u>F-4</u>
<u>Consolidated Statements of Shareholders' Equity for the Years Ended June 30, 2018, 2017 and 2016</u>	<u>F-5</u>
<u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2018, 2017 and 2016</u>	<u>F-6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-7 –</u> <u>F-24</u>

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Delta Technology Holdings Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Delta Technology Holdings Limited (the "Company") as of June 30, 2018 and 2017, and the related consolidated statements of operations and comprehensive losses, stockholders' deficit and cash flows for each of the two years in the period ended June 30, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2018 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the

effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Centurion ZD CPA Ltd.
Centurion ZD CPA Ltd. (fka
DCAW (CPA) Ltd. As
successor to Dominic K.F.
Chan & Co.)
Hong Kong
November 14, 2018

We have served as the Company's auditor since 2015.

F-2

DELTA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS

AS AT JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$1,018,708	\$44,284
Restricted cash	-	13,276
Trade and other receivables (Note 5)	14,007,127	81,327,991
Inventories (Note 6)	5,067,731	5,282,737
	\$20,093,566	\$86,668,288
Non-current assets		
Property, plant and equipment, net (Note 7)	\$44,346,646	\$46,608,189
Land use rights (Note 8)	2,032,346	2,032,547
Deferred tax assets	702,391	610,473
	\$47,081,383	\$49,251,209
Total assets	\$67,174,949	\$135,919,497
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables (Note 9)	\$21,468,563	\$13,131,216
Advances from customers	-	4,423,090
Bank borrowings and other loans (Note 10)	67,336,545	66,414,123
Income tax payables	191,810	187,261
Deferred tax liabilities	672,354	633,409
Dividends payable (Note 11)	-	35,000,000
Warrants liabilities	312,963	518,748
	\$89,982,235	\$120,307,847
Total liabilities	\$89,982,235	\$120,307,847
Equity		
Ordinary shares, \$0.0001 par value share, 150,000,000 shares authorized 12,660,314 and 11,061,679 shares issued and outstanding at June 30, 2018 and 2017 respectively	\$1,266	\$1,106
Preferred shares, par value \$0.0001 per share, 5,000,000 shares authorized; none issued or outstanding	-	-
Additional paid-in capital	50,007,410	47,959,263
Statutory reserves	7,180,500	7,180,500
Accumulated losses	(83,279,164)	(35,389,829)
Accumulated other comprehensive income	3,282,702	(4,139,390)
Total (deficit) equity	\$(22,807,286)	\$15,611,650

Total liabilities and (deficit) equity	\$67,174,949	\$135,919,497
--	--------------	---------------

See notes to consolidated financial statements

F-3

DELTA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED JUNE 30, 2018, 2017 AND 2016

	2018	2017	2016
Revenue	\$38,452,206	\$56,292,093	\$53,418,112
Cost of sales	(36,488,874)	(52,367,418)	(48,713,456)
Gross profit	1,963,332	3,924,675	4,704,656
Operating expense:			
Selling expenses	(2,383,372)	(1,416,283)	(2,251,997)
General and administrative expenses	(3,248,267)	(5,295,518)	(5,376,137)
Allowance for doubtful accounts and obsolescence stock	(77,808,582)	(25,162,381)	(7,509,470)
	(83,440,221)	(31,874,182)	(15,137,604)
Other income (expenses):			
Interest expenses	(1,388,102)	(3,254,991)	(3,710,945)
Interest income	57	504	336,623
Change in fair value of warrants	205,785	531,099	6,856,682
Gain on disposal of a subsidiary	-	-	435,488
Other (loss) gains - net	(230,186)	2,245,651	(1,043,130)
	(1,412,446)	(477,737)	2,874,718
Loss before income taxes	(82,889,335)	(28,427,244)	(7,558,230)
Income taxes (Note 12)	-	-	802,627
Net loss	\$(82,889,335)	\$(28,427,244)	\$(6,755,603)
Other comprehensive income (loss)			
Foreign currency translation adjustments	7,422,092	(1,881,886)	(12,263,307)
	7,422,092	(1,881,886)	(12,263,307)
Comprehensive (loss) income	\$(75,467,243)	\$(30,309,130)	\$(19,018,910)
(Loss) earnings per share attributable to Equity holders of the Company (Note 13)			
- Basic	\$(7.11)	\$(2.87)	\$(1.46)
- Diluted	\$(7.11)	\$(2.87)	\$(1.46)
Weighted average shares used in calculating (Loss) earnings per ordinary share			
- Basic	11,653,729	9,914,313	9,323,108
- Diluted	11,653,729	9,914,313	9,323,108

See notes to consolidated financial statements

F-4

DELTA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED JUNE 30, 2018, 2017 AND 2016

	Share capital Ordinary share	Amount	Additional paid-in capital	Statutory reserves	Retained earnings (accumulated losses)	Accumulated other comprehensive (Loss) income	Total
Balance as of July 1, 2015	8,720,994	872	41,427,773	7,180,500	(206,982)	10,005,803	58,407,966
Exercise of warrants	897,858	90	4,112,946	-	-	-	4,113,036
Net loss for the year	-	-	-	-	(6,755,603)	-	(6,755,603)
Foreign currency translation adjustment	-	-	-	-	-	(12,263,307)	(12,263,307)
Balance as of June 30, 2016	9,618,852	962	45,540,719	7,180,500	(6,962,585)	(2,257,504)	43,502,092
Balance as of July 1, 2016	9,618,852	962	45,540,719	7,180,500	(6,962,585)	(2,257,504)	43,502,092
Issuance shares for professional service	1,442,827	144	2,418,544	-	-	-	2,418,688
Net loss for the year	-	-	-	-	(28,427,244)	-	(28,427,244)
Foreign currency translation adjustment	-	-	-	-	-	(1,881,886)	(1,881,886)
Balance as of June 30, 2017	11,061,679	1,106	47,959,263	7,180,500	(35,389,829)	(4,139,390)	15,611,650
Balance as of July 1, 2017	11,061,679	1,106	47,959,263	7,180,500	(35,389,829)	(4,139,390)	15,611,650
Issuance shares for professional service	800,000	80	871,920	-	-	-	872,000
Issuance shares for placement	1,798,635	180	1,176,127	-	-	-	1,176,307
Cancellation for Escrow shares	(1,000,000)	(100)	100	-	-	-	-
Cancellation for dividend payable	-	-	-	-	35,000,000	-	35,000,000
Net (loss) for the year	-	-	-	-	(82,889,335)	-	(82,889,335)
	-	-	-	-	-	7,422,092	7,422,092

Foreign currency
translation
adjustment

Balance as of June 30, 2018	12,660,314	1,266	50,007,410	7,180,500	(83,279,164)	3,282,702	(22,807,286)
--------------------------------	------------	-------	------------	-----------	---------------	-----------	--------------

See notes to consolidated financial statements

F-5

DELTA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018, 2017 AND 2016

	2018	2017	2016
Cash flows from operating activities:			
Net loss	\$(82,889,335)	\$(28,427,244)	\$(6,755,603)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Change in fair value of warrants	(205,785)	(531,099)	(6,856,682)
Share based compensation expenses	872,000	2,418,688	-
Depreciation of property and equipment	4,574,640	3,760,619	5,883,313
Amortization of land use rights	50,450	48,406	67,131
Gain on disposals of property, plant and equipment	-	(417,277)	(90,700)
Gain on disposals of a subsidiary	-	-	(435,488)
Deferred income taxes	0	-	(26,518)
Allowance for doubtful accounts	77,703,779	23,950,416	7,509,470
Allowance for Obsolescence stock	105,002	1,211,966	423,588
Impairment losses recognized on plant and equipment	-	-	2,599,980
Changes in assets and liabilities, net of effects of acquisitions and disposals:			
Trade and other receivables	(7,193,135)	8,355,425	(7,101,570)
Inventories	244,362	(743,189)	2,671,325
Trade and other payables	8,169,616	(7,612,138)	(20,539,601)
Advances from customers	(4,609,894)	(1,671,028)	4,169,072
Income tax payables	-	-	(675,952)
Net cash (used in) provided by operating activities	(3,178,300)	343,545	(19,158,235)
Cash flows from investing activities:			
Acquisitions of			
- Land use rights	-	-	-
- Property, plant and equipment and construction in progress	(1,373,636)	(893,646)	(929,108)
Proceeds on the disposals of property and equipment	252,330	932,572	(1,516,850)
Proceeds on the disposal of land use rights	-	-	1,535,243
Net cash provided by (used in) investing activities	(1,121,306)	38,926	(910,715)
Cash flows from financing activities:			
Cash received from share issuance	1,176,307	-	-
Proceeds from bank borrowings and other loans	28,256,564	-	115,610,739
Repayment of bank borrowings and other loans	(28,959,788)	(462,567)	(121,283,331)
Change in restricted cash	13,836	74,072	24,351,052

Edgar Filing: MEXICO FUND INC - Form 497

Net cash provided by (used in) financing activities	486,919	(388,495)	18,678,460
Effect of exchange rate changes on cash	4,787,111	(12,841)	1,236,027
Increase (decrease) in cash and cash equivalents	974,424	(18,865)	(154,463)
Cash and cash equivalents at beginning of year	44,284	63,149	217,612
Cash and cash equivalents at end of year	\$1,018,708	\$44,284	\$63,149
Supplemental disclosures of cash flow information:			
Interest paid	\$1,388,094	\$3,254,991	\$3,710,945
Tax paid	\$-	\$-	\$1,207,434
Major non-cash transactions:			
Issuance shares for professional service	\$872,000	\$2,418,688	\$-
Warrant exercise	\$-	\$-	\$90

See notes to consolidated financial statements

F-6

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 1 - Organization and Business Operations

Delta Technology Holdings Limited (formerly known as CIS Acquisition Limited, the “Company,” or “Delta Technology,” or “we”) was formed 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 are an emerging growth company, as defined in the Jumpstart Our Business Startups Act.

On December 21, 2012, our IPO of 4,000,000 units was consummated at a public offering price of \$10.00 per unit, generating gross proceeds of \$40,000,000. Each unit consists of one callable Class A Share, par value \$0.0001 per share, and one redeemable warrant. Each redeemable warrant included in the units entitles 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, was placed in trust (the “Trust Account”) pending the completion of our initial acquisition transaction. On March 18, 2012, the ordinary shares and warrants underlying the units sold in the IPO began to trade separately.

On September 16, 2014, a Stock Purchase Agreement (the “Purchase Agreement”) was entered into by and among Delta Technology, 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”). Upon closing of the Purchase Agreement on September 19, 2014, Delta Technology acquired all of the shares of Elite from Elite Shareholders in exchange for the issuance to 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 Purchase Agreement (the “Acquisition”).

The Earnout Payment Shares, if any, will be issued as follows: (a) 500,000 shares shall be issued 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 shall be issued 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 shall be issued 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 (13) 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.

As a result of the consummation of the Acquisition, Elite is now our wholly subsidiary. Elite was incorporated under British Virgin Islands law on September 13, 2014 solely in contemplation of the Acquisition. It is currently the holding company of all the shares of Delta Advanced Materials Limited, a Hong Kong corporation (“Delta”), which, in turn, holds all the equity interests in four operating subsidiaries in the PRC: Jiangsu Yangtze Delta Fine Chemical Co., Ltd (“Jiangsu Delta”), Jiangsu Zhengxin New Material Research and Development Co., Ltd (“Jiangsu Zhengxin”), Jiangsu Delta Logistics Co., Ltd (“Jiangsu Logistics”), and Binhai Deda Chemical Co., Ltd (“Binhai Deda”) (collectively, the “PRC Subsidiaries”).

The Acquisition was accounted for as a reverse acquisition in accordance with US GAAP. Under this method of accounting, Delta Technology was treated as the “acquired” company for financial reporting purposes. This determination was primarily based on Elite comprising the ongoing operations of the combined entity, Elite senior management comprising the senior management of the combined company, and the former holders of Elite having a controlling interest in terms of the voting power of the combined entity. In accordance with guidance applicable to these circumstances, the Acquisition was considered to be a capital transaction in substance. Accordingly, for accounting purposes, the Acquisition was treated as the equivalent of Elite issuing stock for the net assets of Delta Technology, accompanied by a recapitalization. The net assets of Delta Technology will be stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Acquisition will be those of Elite.

Delta (formerly known as China Deltachem Holdings Limited) was incorporated in Hong Kong on June 17, 2010. The address of its registered office is Suite D, 19th Floor, Ritz Plaza, 122 Austin Road, Hong Kong. The reporting currency of Delta is the United States Dollar (“\$”). The principal activity of Delta is investment holding and currently operates two wholly-owned subsidiaries in the People’s Republic of China (“PRC”): Jiangsu Delta and Binhai Deda. Jiangsu Delta is the principal operating subsidiary of the Company and is engaged in the production of fine specialty chemicals.

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 1 - Organization and Business Operations (Continued)

On June 15, 2007, Jiangsu Delta was established by S&S International Investment Holding (HK) Limited (“S&S International”), a Hong Kong based investment holding company, as a wholly foreign-owned enterprise (with an initial registered capital of \$42 million, which was later reduced to \$ 28.8 million) located in Zhenjiang City, Jiangsu Province, the PRC.

Pursuant to a share transfer agreement entered into on April 13, 2008, Mr. Xin Chao acquired the entire equity interest in Jiangsu Delta from S&S International through Zhengxin International Investment Limited, a Hong Kong corporation (“Zhengxin International”) and became the controller of Jiangsu Delta since then. On May 21, 2008, the acquisition of Jiangsu Delta by Zhengxin International was approved by the Jiangsu Foreign Trade and Economic Cooperation Department in accordance with “The Approval of Alteration of Equities in and Amendment of the Articles of Association of Jiangsu Yantze River Delta Fine Chemical Co, Ltd.” issued by the same authority.

As part of corporate restructuring, Delta acquired Jiangsu Delta for a consideration of \$28.8 million pursuant to a sale and purchase agreement dated May 20, 2010. Delta, formerly known as China Deltachem Holdings Limited, as a pure investment holding vehicle controlled by Mr. Chao had an initial issued and paid-up share capital of HK\$10,000 comprising 10,000 shares of HK\$1.00 each. The said shares were issued at a total subscription price of HK\$68,640,000 (equivalent to \$8,800,000) with a premium of HK\$6,863 per share.

On August 30, 2010, the acquisition of Jiangsu Delta by Delta was approved by the Jiangsu Foreign Trade and Economic Cooperation Department in accordance with “The Approval of Share Transfer of and Amendment of the Articles of Association of Jiangsu Chang San Jiao Chemical Co., Ltd.” issued by the same authority.

On May 26, 2011, Delta carried out a bonus share issue, whereby an additional 39,990,000 ordinary shares of Delta were allotted and issued as bonus shares at a price of HK\$1.00 each to all the then shareholders of Delta at the ratio in proportion to their existing shareholding percentage, and credited as fully paid up on a capitalization of the reserve of HK\$39,990,000 from the capital reserve of Delta. Subsequent to the bonus issue, Delta’s total issued and paid-up share capital increases to HK\$40 million, comprising 40 million shares of HK\$1.00 each.

Delta entered into a series of Securities Purchase Agreements dated January 31, 2011, May 16, 2011 and June 30, 2011, respectively, with the funds managed by Korea Investment Partners Co. Ltd. And Kleiner, Perkins, Caufield & Byers (the “Bondholders”), pursuant to which it issued convertible bonds (“Convertible Bonds”) for an aggregate principal amount of US\$18 million. The Convertible Bonds have an interest rate of 6.00% per annum and a guaranteed interest rate at maturity of 15.00%. The principal and interests accrued on such Convertible Notes are convertible in whole or in part into the ordinary shares in Delta, on such terms and subject to the conditions of the Securities Purchase Agreements.

On March 28, 2015, Zhenjiang Xinshun Chemical Trading Company Ltd and Jiangsu Delta entered into a sale and purchase agreement, pursuant to which the entire equity interest of Jiangsu Zhengxin R&D was sold to Zhenjiang Xinshun at a consideration of \$10,518,189 (RMB64.555 million). Delta had recorded a gain on disposal of \$1,178,093 for the year ended June 30, 2015.

On January 8, 2016, Mr. Yang Yi and Jiangsu Logistics entered into a sale and purchase agreement, pursuant to which the entire equity interest of Jiangsu Logistics was sold to Mr. Yang Yi at a consideration of approximately \$1,505,140 (RMB10 million). Delta had recorded a gain on disposal of \$435,488 for the year ended June 30, 2016.

On July 6, 2017, the 1,000,000 Earnout Payment Shares which held at Escrow has been cancelled due to the Company achieves Adjusted Net Income for full year ended June 30, 2016 and 2017 were lower than the Net Income Targets.

On November 21, 2017, Delta entered in to a securities purchase agreement (“SPA”) with certain accredited investors in connection with a private placement offering of 1,798,635 ordinary shares, par value \$0.0001 per shares for gross proceeds of \$1,176,307. In connection with the purchase of shares, the Purchasers has received warrant to purchase an aggregate of 359,727 ordinary shares pursuant to the SPA.

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 1 - Organization and Business Operations (Continued)

On November 21, 2017, the Company, Xin Chao, the CEO of the Company, Master Kingdom Holdings Limited (“Master”), a company duly organized under the laws of British Virgin Islands and controlled by Mr. Chao, KPCB China Fund LP (“KPCB China”), a partnership duly organized under the laws of Cayman Islands and KPCB China Founders Fund LP (“KPCB China Founders”), a partnership duly organized under the laws of Cayman Islands (together with Master, KPCB China, the “Sellers”), and certain purchasers as set forth on the signature page thereof (the “Purchasers”) entered into a share purchase agreement (the “Purchase Agreement”), pursuant to which Purchasers purchased from the Sellers a total of 3,858,125 ordinary shares of the Company (“Shares”). In full consideration for the Shares, the Purchasers paid the Sellers \$2,250,000 of cash and forgave certain debt in the aggregate amount of \$1,938,530 pursuant to certain promissory note issued by Master in favor of the Purchases by delivering a general release in favor of Master. The transaction contemplated by the Purchase Agreement closed on the same day.

On May 22, 2018, Delta Technology Holdings Limited establish a U.S. subsidiary named as Delta Technology Holdings USA Inc. Delta Technology Holdings USA Inc issued 200 shares without par value to Delta Technology Holdings Limited.

Master and Mr. Chao, agreed to continue to manage daily operations of the Company’s subsidiaries and assume all obligations and liabilities in connection the operations of the Company’s subsidiaries post-closing. The Sellers agreed to certain other post-closing covenants in relation to operating the Company’s business in its ordinary course, including but not limited to, providing monthly financial reports to the Purchasers, paying taxes and debt obligations on a timely basis and refraining from consummating mergers, acquisitions or sales of assets.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation and Presentation

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The consolidated financial statements include the financial statements of the Company, and its wholly-owned subsidiaries. All intercompany accounts, transactions, and profits have been eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

Segment Reporting

The Company operates in one business and geographical segment of manufacturing and sales of organic compounds in the PRC. ASC 280, Segment Reporting, establishes standards for reporting information about operating segments. Given the economic characteristics of the similar nature of the products sold, the type of customer and the method of distribution, the Company operates as one reportable segment as defined by ASC 280, Segment Reporting.

F-9

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation

The Company's financial statements are presented in the U.S. dollar (\$), which is the Company's reporting currency and functional currency. The Company's subsidiaries in the PRC use Renminbi ("RMB") as their functional currencies. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Any differences between the initially recorded amount and the settlement amount are recorded as a gain or loss on foreign currency transaction in the consolidated statements of income. Monetary assets and liabilities denominated in foreign currency are translated at the functional currency rate of exchange ruling at the balance sheet date. Any differences are taken to profit or loss as a gain or loss on foreign currency translation in the statements of income.

In accordance with ASC 830, Foreign Currency Matters, the Company translated the assets and liabilities into US\$ using the rate of exchange prevailing at the applicable balance sheet date and the statements of income and cash flows are translated at an average rate during the reporting period. Adjustments resulting from the translation are recorded in shareholders' equity as part of accumulated other comprehensive income.

Revenue Recognition

Revenue principally represents organic compound sale revenue. Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities and is recorded net of value added tax ("VAT"). Consistent with the criteria of ASC 605 "Revenue Recognition" ("ASC 605"), the Company recognizes revenue when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been provided, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

Revenue from the sale of goods is recognized upon delivery when the significant risks and rewards of ownership of goods have transferred to the buyer, continuing managerial involvement usually associated with ownership and effective control have ceased and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is recognized on a time-proportion basis using the effective interest method.

Borrowing Costs

Borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to assets under construction. Borrowing costs on general borrowings are capitalised by applying a capitalization rate to construction or expenditures that are financed by general borrowings. Borrowing costs on general financing during the years ended June 30, 2018, 2017 and 2016 were capitalized at a rate of 4.67%, 4.9% and 5.2% respectively.

Leases

The Company accounts for its leases under the provisions of ASC 840, Leases. Certain of the Company's operating leases provide for minimum annual payments that change over the life of the lease. The aggregate minimum annual payments are expensed on the straight-line basis over the minimum lease term. The Company recognizes a deferred rent liability for minimum step rents when the amount of rent expense exceeds the actual lease payments and it reduces the deferred rent liability when the actual lease payments exceeds the amount of straight-line rent expense. Rent holidays and tenant improvement allowances for store remodels are amortized on the straight-line basis over the initial term of the lease and any option period that is reasonably assured of being exercised.

Restricted Cash

Restricted cash are cash deposited in fixed deposit accounts maintained in the PRC and Hong Kong for the purpose of securing bank borrowings.

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

Trade Receivables

Trade receivables are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements' assessment of known requirements, aging of receivables, payment history, the customer's current credit worthiness and the economic environment.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined using the monthly average cost method, except for materials-in-transit. The cost of finished goods comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes costs of idle plant and abnormal waste. Net realizable value is the estimated selling price in the ordinary course of business, less the applicable variable selling expenses.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. The cost of an item of property, plant and equipment initially recognized includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating the manner intended by management. Significant additions or improvements extending useful lives of assets are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Buildings	10 or 20 years
Machinery	10 or 20 years
Vehicles	4 years
Plant and equipment	3 to 5 years
Software	5 years

Construction in progress represents buildings and related premises under construction, which is stated at actual construction cost less any impairment loss.

Construction in progress is transferred to the respective category of property and equipment when completed and ready for its intended use.

Costs of repairs and maintenance are expensed as incurred and asset improvements are capitalized. The cost and related accumulated depreciation and amortization of assets disposed of or retired are removed from the accounts, and any resulting gain or loss is reflected in the consolidated income statements.

Land Use Rights

According to the laws of the PRC, the government owns all the land in the PRC. Companies or individuals are authorized to possess and use the land only through the land use rights granted by the government. The land use rights represent cost of the rights to use the land in respect of properties located in the PRC. Land use rights are carried at cost and amortized on a straight-line basis over the period of rights of 50 to 52 years.

Long-lived Assets

The Company reviews long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Long-lived assets are reviewed for recoverability at the lowest level in which there are identifiable cash flows, usually at the store level. The carrying amount of a long-lived asset is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. If the asset is determined not to be recoverable, then it is considered to be impaired and the impairment to be recognized is the amount by which the carrying amount of the asset exceeds the fair value of the asset, determined using discounted cash flow valuation techniques, as defined in ASC 360, Property, Plant, and Equipment.

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

Long-lived Assets (Continued)

The Company determined the sum of the undiscounted cash flows expected to result from the use of the asset by projecting future revenue and operating expense for each store under consideration for impairment. The estimates of future cash flows involve management judgment and are based upon assumptions about expected future operating performance. The actual cash flows could differ from management's estimates due to changes in business conditions, operating performance and economic conditions.

The Company's evaluation resulted in no long-lived asset impairment charges during the years ended June 30, 2018, 2017 and 2016.

Goodwill

The Company allocates goodwill to reporting units based on the reporting unit expected to benefit from the business combination. The Company evaluates their reporting units on an annual basis and, if necessary, reassigns goodwill using a relative fair value allocation approach. Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The Company first assesses qualitative factors to determine whether it is more likely than not that goodwill is impaired. If the more likely than not threshold is met, we perform a quantitative

impairment test. The Company's evaluation resulted in goodwill impairment charges of nil, nil and nil respectively during the years ended June 30, 2018, 2017 and 2016.

Accrual and Disclosure of Loss Contingencies

We determine whether to disclose or accrue for loss contingencies based on an assessment of whether the risk of loss is remote, reasonably possible or probable, and whether it can be reasonably estimated. We analyze, if any, our litigation and regulatory matters based on available information to assess the potential liabilities. Our assessment is developed based on an analysis of possible outcomes under various strategies. We accrue for loss contingencies when such amounts are probable and reasonably estimable. If a contingent liability is only reasonably possible, we will disclose the potential range of the loss, if estimable. We record losses related to contingencies in cost of operations or selling, general and administrative expenses, depending on the nature of the underlying transaction leading to the loss contingency.

Convertible bonds

Convertible bonds are presented as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities. On issuance of convertible foreign currency bonds, the proceeds from convertible bonds issued are allocated to the liability component presented on the balance sheet. The liability component including the conversion option is recognised initially at its fair value, determined using the Binomial Valuation Model. It is subsequently carried at its fair value with fair value changes recognised in profit or loss. When the conversion option is exercised, the carrying amount of the liability component is derecognised with a corresponding recognition of share capital.

Retirement Benefit Plans

Full time employees of the Company in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require the Company to make contributions to the government for these benefits based on certain percentages of the employees' salaries. The Company accounts the mandated defined contribution plan under the vested benefit obligations approach based on the guidance of ASC 715, Compensation-Retirement Benefits.

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

Retained Earnings - Appropriated

The income of the Company's PRC subsidiaries is distributable to their shareholder after transfer to reserves as required by relevant PRC laws and regulations and the subsidiary's Articles of Association. As stipulated by the relevant laws and regulations in the PRC, these PRC subsidiaries are required to maintain reserves which are non-distributable to shareholders. Appropriations to the reserves are approved by the respective boards of directors.

Reserves include statutory reserves and discretionary reserves. Statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of shareholders, provided that the balance after such conversion is not less than 25% of the registered capital. The appropriation to the statutory reserves must not be less than 10% of net profit after taxation. Such appropriation may cease to apply if the balance of the fund is equal to 50% of the entity's registered capital.

Advertising Expenses

Advertising expenses are expensed as incurred. The advertising expenses were not material for the years ended June 30, 2018, 2017 and 2016.

Income Taxes

The Company follows ASC 740, Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences

between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company adopted ASC 740-10-25, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax position. The Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of ASC 740-10-25.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits with original maturities of three months or less, which are unrestricted as to withdrawal and use the Company maintained accounts at banks. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash accounts in a financial institution, which at times, may exceed the U.S. Federal depository insurance coverage of \$250,000, or other limits of protection if held in financial institutions outside of the U.S., such as Government securities coverage of HK\$500,000. The Company has not experienced losses on these accounts and management believes the Company is not exposed to significant risks on such accounts.

Share Based Payment

Goods and services received or acquired in an equity-settled share based payment transaction, which do not qualify for recognition as assets, are recognized as expenses with a corresponding increase in equity. The Company measures the goods and services received at fair value of the goods and services received, unless that fair value cannot be estimated reliably.

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

Comprehensive Income

The Company has adopted FASB Accounting Standard Codification Topic 220 (“ASC 220”) “Comprehensive income” (formerly known as SFAS No. 130, “Reporting Comprehensive Income”), which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Accumulated other comprehensive income represents the accumulated balance of foreign currency translation adjustments of the Company.

Fair Value Measurements

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company holds. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Valuation based on quoted prices in markets that are not active for which all significant inputs are observable, either directly or indirectly.

·Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company adopted ASC 820, Fair Value Measurements and Disclosures, on January 1, 2008 for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company has also adopted ASC 820, on January 1, 2009 for non-financial assets and non-financial liabilities, as these items are not recognized at fair value on a recurring basis. The adoption of ASC 820 for all financial assets and liabilities and non-financial assets and non-financial liabilities did not have any impact on the Company's consolidated financial statements.

Financial instruments include cash, accounts receivable, prepayments and other receivables, short-term borrowings from banks, accounts payable and accrued expenses and other payables. The carrying amounts of cash, accounts receivable, prepayments and other receivables, short-term loans, accounts payable and accrued expenses approximate their fair value due to the short-term maturities of these instruments. See Note 17 regarding the fair value of the Company's warrants, which are classified as Level 3 liabilities in the fair value hierarchy.

The fair values of the convertible bonds are determined using Binomial Valuation Model.

The fair values of current financial assets and liabilities carried at amortized cost approximate their carrying amounts.

Commitments and contingencies

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations and tax matters. In accordance with ASC No. 450 Subtopic 20, "Loss Contingencies", the Company records accruals for such loss contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

Recently Issued Accounting Guidance

The Company has considered all new accounting pronouncements and has concluded that there are no new pronouncements that may have a material impact on results of operations, financial condition, or cash flows, based on current information.

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 3 - Going concern

As shown in the accompanying consolidated financial statements, the Company has generated a net loss of \$82,889,337 and an accumulated deficit of \$83,279,164 as of June 30, 2018. The Company also experienced insufficient cash flows from operations and will be required continuous financial support from the shareholders. The Company will need to raise capital to fund its operations until it is able to generate sufficient revenue to support the future development. Moreover, the Company may be continuously raising capital through the sale of debt and equity securities.

The Company's ability to achieve these objectives cannot be determined at this stage. If the Company is unsuccessful in its endeavors, it may be forced to cease operations. These consolidated financial statements do not include any adjustments that might result from this uncertainty which may include adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

These factors have raised substantial doubt about the Company's ability to continue as a going concern. There can be no assurances that the Company will be able to obtain adequate financing or achieve profitability. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During the year, the Company has guaranteed for its business partners on repayment of bank loan. As of June 30, 2018, the Company was involved in 8 lawsuits for which the business partners were being sued for delinquent balances. The lawsuit cases were adjudicated by the Court that the Company will take guarantor's responsibility to repay the bank loan for an aggregated balance of \$20,659,772 when the debtors are insolvent.

Note 4 - Concentration of Credit Risk

The Company maintains cash in bank deposit accounts in PRC and Hong Kong. The Company performs ongoing evaluations of this institution to limit its concentration risk exposure.

The Company sells organic compound principally in the PRC. Because of this, the Company is subject to regional risks, such as the economy, regional financial conditions and unemployment, weather conditions, power outages, and other natural disasters specific to the region in which the Company operates.

Details of major customers accounting for 10% or more of the Company's sales or trade receivables are as follows:

	Sales		Trade receivables	
	2018	2017	2018	2017
Customer A	6.99%	11.22%	8.82%	6.46%
Customer B	0.00%	4.13%	0.72%	24.36%
Customer C	0.00%	15.21%	0.04%	10.16%
Customer D	0.00%	5.83%	45.60%	31.08%
Customer E	8.91%	0.00%	0.00%	0.00%

Details of suppliers accounting for 10% or more of the Company's purchases or trade payables are as follows:

	Purchases		Trade payables	
	2018	2017	2018	2017
Supplier A	0.00%	33.77%	0.00%	0.00%
Supplier B	11.47%	37.93%	39.80%	10.35%
Supplier C	0.00%	0.00%	27.04%	53.03%
Supplier D	0.00%	21.09%	0.00%	0.00%
Supplier E	25.70%	0.00%	0.89%	0.00%
Supplier F	18.60%	0.00%	3.20%	0.00%

F-15

DELTA TECHNOLOGY HOLDINGS LIMITED**Notes to Consolidated Financial Statements****FOR THE YEARS ENDED June 30, 2018, 2017 and 2016****Note 5 - Trade and Other Receivables**

	2018	2017
Trade receivables	55,939,914	48,106,207
Bad debt provision	(50,394,551)	(27,112,258)
Trade receivables - net	5,545,363	20,993,949
Notes receivable	385,278	616,710
Other receivables	8,074,729	55,684,639
Prepayment and deposits	1,757	4,032,693
	14,007,127	81,327,991

Age analysis of trade and other receivables:

	2018	2017
Past due over 3 months	592,083	8,235,786
Past due over 3 to 6 months	943,175	2,852,716
Past due over 6 months	12,471,869	70,239,489
	14,007,127	81,327,991

Note 6 - Inventories

	2018	2017
Finished goods	4,426,509	1,513,895
Raw materials	641,222	3,768,842
	5,067,731	5,282,737

The cost of inventories recognized as an expense and included in cost of sales amounts to \$27,274,625, \$43,990,515 and \$44,722,232 for the year ended June 30, 2018, 2017 and 2016, respectively.

F-16

DELTA TECHNOLOGY HOLDINGS LIMITED**Notes to Consolidated Financial Statements****FOR THE YEARS ENDED June 30, 2018, 2017 and 2016****Note 7 - Property, Plant and Equipment**

	2018	2017
Buildings	13,144,328	12,863,535
Machinery	56,482,962	55,256,545
Vehicles	239,137	277,176
Plant and equipment	4,719,918	4,443,682
Software	26,516	81,471
Construction in progress	1,325,444	926,379
	75,938,305	73,848,788
Less: Accumulated depreciation	(31,591,659)	(27,240,599)
Property, plant and equipment, net	44,346,646	46,608,189

Borrowing costs capitalized during the years ended June 30, 2018, 2017 and 2016 were \$nil, \$nil and \$nil respectively.

Buildings with net book value of approximately \$228,354, \$238,342 and \$258,922 were used as collateral of short term bank borrowings for the years ended June 30, 2018, 2017 and 2016, respectively.

The depreciation expenses for the years ended June 30, 2018, 2017 and 2016 were \$4,574,640, \$3,760,619 and \$5,883,313, respectively.

The impairment losses recognized on plant and equipment which were no more use for future production for the years ended June 30, 2018, 2017 and 2016 were \$nil, \$nil and \$2,599,980, respectively.

DELTA TECHNOLOGY HOLDINGS LIMITED**Notes to Consolidated Financial Statements****FOR THE YEARS ENDED June 30, 2018, 2017 and 2016****Note 8 - Land Use Rights**

	2018	2017
Land use rights	\$2,482,125	\$2,497,728
Less: Accumulated amortization	(449,779)	(465,181)
Land use rights - net	\$2,032,346	\$2,032,547

Land use rights with net book value of approximately \$1,594,678, \$1,595,295 and \$1,667,055 were used as collateral of short term bank borrowings for the years ended June 30, 2018, 2017 and 2016, respectively.

The Company has disposed land use rights during 2016, the consideration received was \$452,955 and the net land use rights disposal was \$447,366. The Company has recorded a gain on disposal of \$5,589 for the year ended June 30, 2016.

The amortization expenses for the years ended June 30, 2018, 2017 and 2016 were \$50,450 \$48,406 and \$67,131, respectively.

Twelve months ending June 30,	
2019	\$49,582
2020	49,582
2021	49,582
2022	49,582
2023	49,582
Thereafter	1,784,436
Total	\$2,032,346

Note 9 - Trade and Other Payables

	2018	2017
Trade payables	18,120,016	10,203,538
Accruals	262,816	271,535
Other tax payable	1,099,198	1,336,007
Other payables	1,986,533	1,320,136
	21,468,563	13,131,216

F-18

DELTA TECHNOLOGY HOLDINGS LIMITED**Notes to Consolidated Financial Statements****FOR THE YEARS ENDED June 30, 2018, 2017 and 2016****Note 10 – Bank Borrowings and other loans**

	2018	2017
Bank Borrowings	\$39,441,876	\$66,414,123
Other loans	27,894,669	-
	\$67,336,545	\$66,414,123

1. Bank Borrowings

The Bank borrowing as of June 30, 2018 and 2017 were \$39,441,876 and \$66,414,123 respectively.

The following is a summary of the Company's bank borrowings as of June 30, 2018 and 2017:

Bank name	2018	2017
Dantu high credit cooperatives	\$7,222,071	\$7,036,021
Danyang branch of China Construction Bank	-	3,309,750
Bank of Danyang Jiangsu branch	3,490,164	3,731,894
Zhenjiang branch of Shanghai Pudong Development Bank	-	5,826,474
Huaxia Bank Zhenjiang branch	-	5,900,080
Minsheng Bank Zhenjiang branch	3,535,491	3,453,224
Industrial and Commercial Bank of China Dantu District Branch	-	12,200,195
CITIC Bank Zhenjiang branch	5,968,030	5,826,474
China Merchants Bank Danyang branch	19,226,120	19,130,011
	\$39,441,876	\$66,414,123

2.

Other loans

The other loan payable as of June 30, 2018 and 2017 were \$67,336,545 and \$Nil respectively.

The following is a summary of the Company's other loans as of June 30, 2018 and 2017:

Name of Asset Management Company	2018	2017
China Orient Asset Management Co., Ltd Jiangsu branch ¹	\$9,354,645	\$ -
Jiangsu Asset Management Co., Ltd ²	6,043,423	-
China Huarong Asset Management Co., Ltd Jiangsu branch ³	12,496,601	-
	\$27,894,669	\$ -

¹ Transferred from Danyang branch of China Construction Bank and Zhenjiang branch of Shanghai Pudong Development Bank, total amount is \$3,386,616 and \$5,968,029 respectively.

² Transferred from Huaxia Bank Zhenjiang branch

³ Transferred from Industrial and Commercial Bank of China Dantu District Branch

The interest expenses for the years ended June 30, 2018, 2017 and 2016 were \$1,383,257, \$3,254,991 and \$3,710,945, respectively.

Borrowings and other loans primarily consist of loans denominated in Renminbi, and U.S. dollars. Bank borrowings are secured over certain bank deposits, certain trade receivables, certain plant and machinery, and certain land use rights. The bank borrowings are guaranteed by a number of unrelated parties, and Mr. Chao Xin, our Chief Executive Officer, Chairman and a shareholder of the Company.

Buildings with net book value of approximately \$228,354, \$238,342 and \$258,922 were used as collateral of short term bank borrowings for the years ended June 30, 2018, 2017 and 2016, respectively. (note 7)

Land use rights with net book value of approximately \$1,594,678, \$1,595,295 and \$1,667,055 were used as collateral of short term bank borrowings for the years ended June 30, 2018, 2017 and 2016, respectively. (note 8)

DELTA TECHNOLOGY HOLDINGS LIMITED**Notes to Consolidated Financial Statements****FOR THE YEARS ENDED June 30, 2018, 2017 and 2016****Note 11 - Dividends Payable**

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 the Shareholders, Mr. Yan Hong, Mr. Shen Lei and Mr. Chao Xin in accordance with their respective percentage shareholdings in Delta, as to \$392,000 to Mr. Yan Hong; as to \$392,000 to Mr. Shen Lei; and as to \$34,216,000 to Mr. Chao Xin. As at June 30, 2017, the dividends were not paid. The directors of Delta are reviewing the cash position of the Company periodically to decide when to pay for the dividend.

On July 20, 2017, each of the Dividend Recipients executed a Deed Poll and Undertaking to unconditionally and irrevocably waive his right and entitlement to the dividend and undertake not to take any action against Delta in connection therewith. The said waivers were accepted and approved by the board of directors of Delta on July 20, 2017.

Note 12 - Income Taxes

The income tax provision consisted of the following:

	2018	2017	2016
Current income tax expense	-	-	(776,109)
Deferred taxation	-	-	(26,518)
	-	-	(802,627)

The difference between the income tax expenses and the expected income tax computed at statutory Enterprise Income Tax rate ("EIT") of the PRC was as follows:

Edgar Filing: MEXICO FUND INC - Form 497

	2018	2017	2016
Loss before income taxes	(82,889,335)	(28,427,244)	(7,558,230)
Income tax computed at statutory EIT rate (25%)	(20,722,334)	(7,106,811)	(1,889,558)
Effect of different tax rates available to different jurisdictions		-	-
Non-deductible expenses	19,452,146	6,290,595	1,086,931
Change in valuation allowance and others	1,270,188	816,216	-
	-	-	(802,627)

F-20

DELTA TECHNOLOGY HOLDINGS LIMITED**Notes to Consolidated Financial Statements****FOR THE YEARS ENDED June 30, 2018, 2017 and 2016****Note 12 - Income Taxes (Continued)**

Deferred income taxes are recognized for tax consequences in future years of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements at each year-end and tax loss carryforwards. Deferred income tax was measured using the enacted income tax rates for the periods in which they are expected to be reversed. The tax effects of temporary differences that give rise to the following approximate deferred tax assets and liabilities as of June 30, 2018 and 2017 are presented below:

	2018	2017
Current portion:		
Tax loss c/f	207,868	207,868
Receivables provision	494,524	402,605
Corporation Income Tax in accordance with the PRC State Administration of Taxation	(672,354)	(633,409)
Net deferred tax (liabilities) assets	30,038	(22,936)

Note 13 - Earnings Per Share

The Company calculates earnings per share in accordance with ASC 260, Earnings Per Share, which requires a dual presentation of basic and diluted earnings per share. Basic earnings per share are computed using the weighted average number of shares outstanding during the fiscal year. Potentially dilutive common shares consist of convertible bonds (using the if-converted method) and exercisable warrants. The following table sets forth the computation of basic and diluted net income per common share:

	2018	2017	2016
Numerator:			
Net (loss) income attributable to ordinary shareholders for computing net income per ordinary share – basic	\$(82,889,335)	\$(28,427,244)	\$(6,755,603)
(Gain) loss on valuation of warrants	(205,785)	(531,099)	(6,856,682)
Net (loss) income attributable to ordinary shareholders for computing net income per ordinary share – diluted	\$(83,095,120)	\$(28,958,343)	\$(13,612,285)

Denominator:

Weighted average number of shares used in calculating net income per ordinary share – basic	11,653,729	9,914,313	9,323,108
Weighted average number of shares used in calculating net income per ordinary share – diluted	11,653,729	9,914,313	9,323,108

The 359,727 warrants were not included in the computation of diluted earnings per share as their effects would have been anti-dilutive since the average share price for the year ended June 30, 2018 was lower than the warrants exercise price.

Net (loss) income per ordinary share - basic	\$ (7.11)	\$ (2.87)	\$ (1.46)
Net (loss) income per ordinary share - diluted	\$ (7.11)	\$ (2.87)	\$ (1.46)

Note 14 – Operating Lease

The Company did not have any operating lease as of June 30, 2018 and 2017.

F-21

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 15 –Related Party Transactions

In addition to the information disclosed elsewhere in the financial statements, the following transaction took place between the Company and related parties at terms agreed between the parties:

Guarantees in favour of the Company’s bank borrowings were received from Mr. Chao Xin, our Chief Executive Officer, Chairman and a shareholder for the years ended June 30, 2018, 2017 and 2016.

Note 16 – Disposal of wholly owned subsidiary

On January 6, 2016, Mr. Yang Yi and Jiangsu Logistics entered into a sale and purchase agreement, pursuant to which the entire equity interest of Jiangsu Logistics was sold to Mr. Yang Yi at a consideration of approximately \$1,505,140 (RMB10 million). Delta had recorded a gain on disposal of \$435,488 for the year ended June 30, 2016.

The disposal was completed on 20 March 2016.

Assets and liabilities at the date of disposal:

Cash and cash equivalents	\$779
Trade and other receivables	1,019,345
Property, plant and equipment	156,722
Trade and other payable	(88,917)
Tax payables	(18,277)
Net liabilities	\$(1,069,652)
Consideration received	1,505,140
Gain on disposal	\$435,488

On March 28, 2015, Zhenjiang Xinshun Chemical Trading Company Ltd and Jiangsu Delta entered into a sale and purchase agreement, pursuant to which the entire equity interest of Jiangsu Zhengxin R&D was sold to Zhenjiang Xinshun at a consideration of \$10,518,189 (RMB64.555 million).

Delta had recorded a gain on disposal of \$1,178,093 for the year ended June 30, 2015.

The disposal was completed on 12 March 2015.

Assets and liabilities at the date of disposal:

Cash and cash equivalents	\$4,154
Trade and other receivables	1,012,013
Property, plant and equipment	9,297,970
Land use right	2,850,240
Trade and other payables	(13,879,652)
Net liabilities	\$(715,275)
Consideration received	10,518,189
Less: Amount required repaying to Danyang Beijiata	(10,055,371)
Gain on disposal	\$1,178,093

F-22

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 17 - Warrants

On December 21, 2012, the company issued 4,000,000 public warrants to the shareholder in connection with the Public Offering. Each class A share will be entitled to one public warrant. Each public warrant entitles the holders to purchase from the Company one ordinary shares at an exercise price of \$10.00 commencing on the later of (a) December 18, 2013 and (b) the consolidation of each series of the Company's ordinary shares into one class of ordinary shares and will expire on the earlier of December 18, 2017 and the date of the Company's dissolution and liquidation of the Trust Account, unless such public warrant are earlier redeemed.

The public warrants may be redeemed by the Company at a price of \$0.01 per public warrant in whole but not in part upon 30 days prior written notice after the public warrants become exercisable, only in the event that the last sale price of the ordinary shares is at least \$15.00 per share for any 20 trading days within a 30 trading days period ending on the third business day prior to the date on which notice of redemption is given. In the event that there is no effective registration statement or prospectus covering the ordinary shares issuable upon exercise of the public warrants, holders of the public warrants may elect to exercise them on a cashless basis by paying the exercise price by surrendering their public warrants for that number of ordinary shares equal to the quotient obtained by dividing (x) the product of the number of shares underlying the redeemable warrants, multiplied by the difference between the exercise price of the public warrants and the "fair market value" by (y) the fair market value. The "fair market value" means the average reported last sale price of our ordinary shares for the 10 trading days ending on the third trading day prior to the date on which the public warrants notice is sent to the warrant agent. The Company would receive additional proceeds to the extent the redeemable warrants are exercised on a cashless basis.

In connection with the Private Placement, on December 21, 2012, the founders (CIS Acquisition Holding Co Ltd) and certain of their designees purchased 4,500,000 warrants (the "Placement Warrants") at a price of \$0.75 per warrants for an aggregate purchase price of \$3,375,000. The Placement warrants are identical to the public warrants, except that the Placement warrants are (i) subject to certain transfer restrictions described below, (ii) cannot be redeemed by the Company, and (iii) may be exercised during the applicable exercise period, on a for cash or cashless basis, at any time after the consolidation of each series of the Company's ordinary shares into one class of ordinary shares after consummation of an Acquisition Transaction or post-acquisition tender offer, as the case may be, even if there is not an effective registration statement relating to the shares underlying the Placement warrants, so long as such warrants are held by the founders or their designees, or their affiliates. Notwithstanding the foregoing, if the Placement warrants are held by the holders other than the founders or their permitted transferees, the Placement warrants will only be exercisable by the holders on the same basis as the public warrants included in the units being sold in the

Public offering. As at December 18, 2017, all the Public warrants were expired.

On November 21, 2017, the company issued 359,727 warrants to the shareholder in connection with a private placement offering of 1,798,635 ordinary shares. The warrant has an exercise price of \$1.31 per share and is exercisable for five years from the date of issuance.

As at June 30, 2018, there were 359,727 warrants outstanding. The fair value of the warrants is \$312,962

F-23

DELTA TECHNOLOGY HOLDINGS LIMITED

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED June 30, 2018, 2017 and 2016

Note 18 – Commitments and contingency

Commitments

The Company did not have any commitment as of June 30, 2018.

Contingency

During the year, the Company has guaranteed for its business partners on repayment of bank loans. As of June 30, 2018, the Company was involved in 8 lawsuits for which the business partners were being sued for delinquent balances. The lawsuit cases were adjudicated by the Court that the Company will take guarantor's responsibility to repay the bank loan for an aggregated balance of \$20,659,772 when the debtors are insolvent.

Litigation

The Company is involved in various legal actions during the year ended June 30, 2018. As of June 30, 2018, the Company was involved in 16 lawsuits in China, of which the Company was plaintiff in relation to 3 trade business disputes, and the Company was defendant in relation to 13 financial loan disputes. The 3 trade business disputes with an aggregated claim of \$291,892 have been adjudicated by the Court in favor of the Company to collect delinquent balances and interest from its customers. 1 out of 13 financial loan disputes with an aggregated balance of \$3,455,962 have been adjudicated by the Court against the Company. 8 out of 13 financial loan disputes have been adjudicated by the court that the Company will be responsible for the guaranteed amount \$20,659,772 once the debtors fail to settle the delinquent amount. The remaining 4 out of 13 in relation to bank loan disputes with an aggregated balance \$22,074,374 have been adjudicated by the court against the Company and the recourse right of three bank loans with an aggregated balance \$16,184,708 have been transferred out soon afterward.

Note 19 - Subsequent Event

On July 3, 2018, the Company issued 100,000 incentive shares to Long Yi and 50,000 shares to Wenyuan Zhang under the Company's 2018 Equity Incentive Plan.

On July 10, 2018, the financial loan dispute of which the Company was defendant with an aggregated indemnity balance \$5,889,666 was adjudicated by the Court. The Company was ordered to repay the aggregated delinquent balances of \$5,889,666 to Shanghai Pudong Development Bank. As of June 30, 2018, Shanghai Pudong Development Bank transferred the recourse right to China Orient Asset Management Co., Ltd. The Company need to repay the delinquent amount to China Orient Asset Management Co., Ltd.

On September 18, 2018, the Company entered into certain securities purchase agreement with certain non US persons pursuant to which the Company agreed to offer and sell up to 2,500,000 ordinary shares at \$0.55 per shares. The net proceeds of the Offering shall be used by the Company for working capital and general corporate purposes.

On October 28, 2018, in anticipation of the Closing, the Company has entered into a series of VIE agreements between Shanghai MYT and Hunan MYT (the "VIE Agreements"), pursuant to which the Company is going to launch a tea shop chain under the brand Mingyuntang in China as part of the Company's efforts to explore new business lines outside of its specialty chemical business.

Except for the above, there were no events or transactions other than those disclosed in this report, if any, that would require recognition or disclosure in our financial statements for the year ended June 30, 2018.

ITEM 19. EXHIBITS

The list of exhibits in the Exhibit Index to this report is incorporated herein by reference.

SIGNATURE

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

Date: November 14, 2018 **DELTA TECHNOLOGY HOLDINGS LIMITED**

/s/ Long Yi
Long Yi
Chief Executive Officer and Chairman

EXHIBIT INDEX

Exhibit No.	Description
<u>1.1(4)</u>	<u>Amended and Restated Memorandum of Association</u>
<u>1.2(4)</u>	<u>Amended and Restated Articles of Association</u>
<u>2.1(1)</u>	<u>Specimen Unit Certificate</u>
<u>2.2(1)</u>	<u>Specimen Public Warrant Certificate</u>
<u>2.3(1)</u>	<u>Specimen Placement Warrant Certificate</u>
<u>2.4(1)</u>	<u>Form of Warrant Agreement</u>
<u>2.5(1)</u>	<u>Form of Unit Purchase Option</u>
<u>4.1(1)</u>	<u>Form of Letter Agreement by and among the Registrant, Chardan Capital Markets, LLC and the founders</u>
<u>4.2(1)</u>	<u>Form of Services Agreement between the Registrant and Chardan Capital Markets, LLC</u>
<u>8.1*</u>	<u>List of Subsidiaries of the Company</u>
<u>10.1(2)</u>	<u>Stock Purchase Agreement by and among CIS Acquisition Ltd., Elite Ride Limited, Delta Advanced Materials Limited, and the shareholders of Elite Ride Limited, dated September 16, 2014</u>
<u>10.2 (3)</u>	<u>Registration Rights Agreement by and among CIS Acquisition Ltd. and the holders of Elite Ride Limited, dated September 19, 2014</u>
<u>10.3(3)</u>	<u>Voting Agreement by and among the Company, Elite Ride Limited, Delta Advanced Materials Limited, and certain shareholders of Elite Ride Limited dated September 19, 2014</u>
<u>10.4(3)</u>	<u>Call Agreement by and among CIS Acquisition Ltd. and CIS Sponsors dated September 19, 2014</u>
<u>10.5*</u>	<u>Exclusive Business Cooperation Agreement between Shanghai MYT and Hunan MYT, dated October 28, 2018</u>
<u>10.6*</u>	<u>Exclusive Option Agreement among Peng Fang, Shanghai MYT and Hunan MYT, dated October 28, 2018</u>
<u>10.7*</u>	<u>Share Pledge Agreement among Peng Fang, Shanghai MYT and Hunan MYT, dated October 28, 2018</u>
<u>10.8*</u>	<u>Timely Reporting Agreement between Shanghai MYT and Hunan MYT, dated October 28, 2018</u>
<u>10.9*</u>	<u>Form of Securities Purchase Agreement in connection with the private placement offering of up to 2,500,000 ordinary shares</u>
<u>11.1(1)</u>	<u>Code of Ethics</u>
<u>12.1*</u>	<u>Certification of the Chief Executive Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.</u>
<u>12.2*</u>	<u>Certification of the Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended</u>
<u>13.1**</u>	<u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>13.2**</u>	<u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>23.1*</u>	<u>Consent of Centurion ZD CPA Limited</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

- (1) Incorporated herein by reference to the Company's Registration Statement on Form F-1 (File No. 333-180224).
- (2) Incorporated herein by reference to the Company's Form 6-K (File No. 001-35755) filed on September 19, 2014.
- (3) Incorporated herein by reference to the exhibits to the Company's Form 20-F filed on September 25, 2014.
- (4) Incorporated herein by reference to the exhibits to the Company's Form 20-F filed on November 17, 2015.