

Delta Technology Holdings Ltd  
Form 20-F  
November 15, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 20-F**

**(Mark One)**

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

**OR**

**..ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
<sup>x</sup> 1934**

**For the fiscal year ended June 30, 2017**

**OR**

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

**OR**

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

Date of event requiring this shell company report . . . . .

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number: 001-35755

Delta Technology Holdings Limited

(Exact name of Registrant as specified in its charter)

\_\_\_\_\_

(Translation of Registrant's name into English)

British Virgin Islands

(Jurisdiction of incorporation or organization)

16 Kaifa Avenue

Danyang, Jiangsu, China 212300

(Address of principal executive offices)

Xin Chao

Chief Executives Officer

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

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

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

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

Not Applicable

(Title of Class)

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

Not Applicable

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of June 30, 2017, the issuer had 11,061,679 ordinary shares issued and outstanding (including 1,000,000 ordinary shares subject to certain net income performance targets).

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
 Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer       Accelerated filer       Non-accelerated  
filer

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Emerging growth  
company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

..

<sup>†</sup> The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other ..

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

..Item 17      ..Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). .. Yes       No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. .. Yes      .. No



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## INTRODUCTORY NOTES

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

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

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

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

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

· “BVI” are to the British Virgin Islands;

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

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

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

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

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

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

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

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

Our financial statements are expressed in U.S. dollars, which is our reporting currency. Certain of our financial data in this annual report on Form 20-F is translated into U.S. dollars solely for the reader’s convenience. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report on Form 20-F were made at a rate of RMB6.6439 to US\$1.00, the average exchange rate for the fiscal year ended June 30, 2017 as set forth at [www.usforex.com](http://www.usforex.com). We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, at the rate stated above, or at all.

## GLOSSARY OF TECHNICAL TERMS

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

Benzene	An organic chemical compound with molecular formula C <sub>6</sub> H <sub>6</sub> . Its molecule is composed of 6 carbon atoms joined in a ring, with 1 hydrogen atom attached to each carbon atom.
Chlorobenzonitrile	A chemical element with molecular formula C <sub>7</sub> H <sub>4</sub> CLN, commonly used in producing medicine, pesticide, dye intermediate.

Chlorobenzyl chloride	A chemical element with molecular formula $C_7H_6Cl_2$ which is commonly used as an intermediate for manufacturing organic compounds used in the end applications of pharmaceuticals, pesticides and dyes.
Chlorotoluene	A group of three isomeric chemical compounds with molecular formula $C_7H_7Cl$ . The group of compounds (ortho-chlorotoluene, meta-chlorotoluene, and para-chlorotoluene) consist of a disubstituted benzene ring with one chlorine atom and one methyl group.
Chlorine	A chemical element with symbol Cl and atomic number 17. Chlorine is in the halogen group and is the second lightest halogen after fluorine. The element is a yellow-green gas under standard conditions, where it forms diatomic molecules.
Fumaric acid	A chemical compound with molecular formula $C_4H_4O_4$ . It is a white crystalline compound which can be used as food additive and in the manufacture of polyester resins and polyhydric alcohols and as a mordant for dyes.
Hydrolyzed polymaleic acid	A brownish-yellow transparent liquid which is used as a scale-retarding and dispersing agent for water-cooling systems, oil field water-injection and low-pressure boilers and also as a rinsing agent for textiles.
Maleic Anhydride or MA	An organic compound with the formula $C_2H_2(CO)_2O$ . It is the acid anhydride of maleic acid and in its pure state it is a colorless or white solid with an acrid odor. It is mainly used in unsaturated resin, water treatment agents such as manufacture of paint, polyester resins, pesticides, and fumaric acid.
O-Chloro benzonitrile	A chemical compound with molecular formula $C_7H_4ClN$ . It is used in dye intermediate, drug and fine chemicals.
O-chlorobenzaldehyde	A chemical compound with molecular formula $C_7H_5ClO$ . It is a colorless or light yellow oily liquid mainly used as pharmaceutical material to produce o-chloro benzoyl, o-chloro benzoylchloride. It is also widely used to produce highly-effective acaricide in pesticide industry and pharmaceutical industry.
O-chlorobenzoic acid	A chemical compound with molecular formula $C_7H_5ClO_2$ . It is a white crystalline powder which can be used as preservative for glues and paints.
O-chlorobenzyl chloride	A chemical element with molecular formula $C_7H_6Cl_2$ , commonly used in the production of o-benzyl, o-dichlorobenzene.
OCT	O-chlorotoluene, a colorless transparent liquid with a molecular formula of $C_7H_7Cl$ . It is used as a solvent in making chemicals, pharmaceuticals, synthetic rubber and dyes, and as an insecticide and bactericide.
Phthalic anhydride	An organic compound with molecular formula $C_6H_4(CO)_2O$ . This colorless solid is an important industrial chemical, especially for the large-scale production of plasticizers for plastics.
PCT	P-chlorotoluene, a clear liquid with molecular formula $CH_3C_6H_4Cl$ . It is commonly used as a solvent and as an intermediate for organic synthesis (especially for dyes).
Styrene	An organic compound with a chemical formula of $C_8H_8$ . It is a derivative of benzene and takes the form of a colorless oily liquid. It is used in the production of rubber, plastic, insulation, fiberglass, pipes and automobile.
Toluene	A clear, colorless liquid with a molecular formula of $C_7H_8$ . It is widely used as an industrial feedstock and as a solvent.
UPR	Unsaturated polyester resin, a family of condensation polymers formed by the reaction of organic acids and alcohols in the presence of catalysts.
2,4DCT	2,4-Dichloro toluene, a clear liquid with molecular formula $C_7H_6Cl_2$ . It can be used as high boiling point solvent and as intermediate for the synthesis of various organic chemicals of chlorinated-nitrated pesticides and medicinal products.

3,4 DCT

3,4-Dichloro toluene, a clear liquid with molecular formula  $C_7H_6Cl_2$ . It can be used as high boiling point solvent and as intermediate for the synthesis of various organic chemicals of chlorinated-nitrated pesticides and medicinal products.

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2,4-Dichloro-chloride	A clear liquid with molecular formula $C_7H_3Cl_3O$ . It is used as an intermediate for the synthesis of pharmaceuticals, agrochemicals, rubber chemicals and dyes.
2,4-Dichlorobenzaldehyde	A pure, colorless, or slightly yellow crystalline with molecular formula $C_7H_4Cl_2O$ . It is primarily used for acid blue dye and pesticide diluted Hexaconazole.
2,4-Dichlorobenzonitrile	A white powder with molecular formula $C_7H_3Cl_2N$ . It is mainly used as a herbicide.
3,4-Dichlorobenzonitrile	A white and crystalline powder with molecular formula $C_7H_3Cl_2N$ . It is mainly used as an intermediate in the manufacture of highly effective herbicide and bactericide.

## **FORWARD-LOOKING STATEMENTS**

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

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

## **PART I**

### **ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

### **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

### **ITEM 3. KEY INFORMATION**

#### **A. Selected Financial Data**

The selected consolidated financial data present the results for the five fiscal years ended and as of June 30, 2017, 2016, 2015, 2014, and 2013. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data below should be read in conjunction with our consolidated financial statements and notes thereto, “Item 5. Operating and Financial Review and Prospects” below, and the other information contained in this Form 20-F.

	For the Years Ended June 30				
	2017	2016	2015	2014	2013
<b>Statement of Income Data</b>					
Revenue	\$56,292,093	\$53,418,112	\$202,009,160	\$175,327,717	\$124,218,213
Cost of Sales	\$(52,367,418)	\$(48,713,456)	\$(182,692,715)	\$(157,904,729)	\$(99,733,216)
Gross Profit	\$3,924,675	\$4,704,656	\$19,316,445	\$17,422,988	\$24,484,997
Net(Loss)/Income	\$(27,949,507)	\$(10,432,948)	\$12,258,404	\$11,634,940	\$17,842,614
(Loss)/Income from operations	\$(28,427,244)	\$(7,558,230)	\$5,135,757	\$6,828,308	\$11,705,736
Comprehensive (Loss)/income	\$(30,309,130)	\$(19,018,910)	\$5,372,660	\$7,144,747	\$13,315,616
(Loss)/Earnings per share – basic	\$(2.87)	\$(1.46)	\$1.44	\$1.53	\$0.29
(Loss)/Earnings per share – diluted	\$(2.92)	\$(1.46)	\$1.44	\$1.53	\$0.29
Weighted average shares - basic	\$9,914,313	\$9,323,108	\$6,462,577	\$4,560,000	\$40,000,000
Weighted average shares - diluted	\$9,914,313	\$9,323,108	\$6,462,577	\$4,560,000	\$58,191,973
<b>Balance Sheet Data</b>					
Working Capital (deficiency)	\$(33,639,559)	\$(10,379,902)	\$(10,419,909)	\$(27,362,427)	\$16,818,269
Total assets	\$135,919,497	\$176,144,150	\$225,724,786	\$206,531,300	\$143,644,914
Total liabilities	\$120,307,846	\$132,642,058	\$167,316,820	\$151,071,926	\$108,645,903
Total equity	\$15,611,650	\$43,502,092	\$58,407,966	\$55,459,374	\$34,999,011

### **Exchange Rate Information**

We conduct our business in China and substantially all of our revenues are denominated in Renminbi. However, periodic reports will be expressed in U.S. dollars using the then current exchange rates. This annual report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. No representation is made that the Renminbi amounts referred to in this annual report could have been or could be converted into U.S. dollars at any particular rate or at all. On November 10, 2017, the daily exchange rate reported at [www.ofx.com](http://www.ofx.com) was RMB6.6415 to US\$1.00.

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

	Renminbi per U.S. Dollar Noon Buying Rate			
	Average (1)	High	Low	Period-End
Year ended June 30, 2017	6.8124	6.9610	6.6199	6.7774
Year ended June 30, 2016	6.4399	6.6516	6.2010	6.6368
Year ended June 30, 2015	6.1375	6.2080	6.0933	6.1088
Year ended June 30, 2014	6.1467	6.1922	6.0901	6.1577
Year ended June 30, 2013	6.2814	6.3872	6.1583	6.1882



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Year ended June 30, 2012	6.3630	6.4773	6.2936	6.3197
May 2017	6.8826	6.9057	6.8206	6.8206
June 2017	6.8092	6.8533	6.7790	6.7794
July 2017	6.7714	6.8060	6.7192	6.7192
August 2017	6.6597	6.7702	6.5211	6.5971
September 2017	6.5681	6.6715	6.4642	6.6536
October 2017	6.6276	6.6564	6.5790	6.6324

Source: <https://www.ofx.com/en-us/forex-news/historical-exchange-rates/>

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

**B. Capitalization and indebtedness.**

Not applicable.

**C. Reasons for the offer and use of proceeds.**

Not applicable.

**D. Risk factors.**

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

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

**Risks related to Our Business**

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

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

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

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

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

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

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

***We depend on our key personnel for continued success.***

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

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

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

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

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

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

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

While such factors may, in some periods, increase product sales, fluctuations in demand can also negatively impact in product sales. If demand for our products declines or the prices of our products decline because of general economic

conditions or for other reasons, our revenues and gross margin could be adversely affected.

*We may be affected by disruptions to our processing facilities.*

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

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

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

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

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

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

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

our existing products, or that we will be able to successfully introduce new products that are able to command higher margins. Some of our competitors may have superior financial, marketing, manufacturing, research and development and technological resources, greater brand name recognition and larger customer bases than it.

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

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

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

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

Accordingly, we face the risk that our customers might place lower than expected orders, if at all, or cancel existing plans for orders. Although the customers might be contractually obliged to purchase products on specific terms from us for particular orders, we may be unable to or, for other business reasons, choose not to enforce our contractual rights if the customers terminate their orders. Cancellations, reductions or instructions to delay production by a significant customer could materially and adversely affect our results of operations by reducing our sales volume, as well as by possibly causing a delay in the customers' repayment of our expenditures for inventory and resulting in lower utilization of the manufacturing facilities, all of which may result in lower gross margins.

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

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

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

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



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

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

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

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

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

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

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

*We are exposed to the credit risks of our customers.*

Our business and financial results are dependent on the credit worthiness of our customers and this risk increases with, inter alia, the customer's proportion of purchases from us. We usually offer our customers credit terms of up to 120 days. There were certain collection problems for trade receivables during fiscal year 2017 and the Company has already made sufficient doubtful debts provision during the year. There is no assurance that we will not encounter more bad debt problems in the future. Should we experience any unexpected delay or difficulty in collections from our customers, our cash flow and financial results may be adversely affected.

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

*We may require additional funding for future growth.*

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