

CIS Acquisition Ltd.  
Form 20-F  
September 25, 2014

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 20-F**

(Mark one)

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
  
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: **September 19, 2014**

Commission File Number: 001-35755

**CIS ACQUISITION LTD.**

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

**British Virgin Islands**

(Jurisdiction of incorporation or organization)

**16 Kaifa Avenue**

**Danyang, Jiangsu, China 212300**

(Address of principal executive offices)

**Xin Chao**

**Chief Executives Officer**

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**Danyang, Jiangsu, China 212300**

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

with a copy to:

**Richard Friedman, Esq.**

**Wei Wang, Esq.**

**Sichenzia Ross Friedman Ference LLP**

**61 Broadway, 32<sup>nd</sup> Fl.**

**New York, NY 10006**

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

**Title of each class**

**Name of exchange on which registered**

**Callable Class A Shares, \$0.0001 par value** **NASDAQ Capital Market**

**Redeemable Ordinary Share**  
**Purchase Warrants** **NASDAQ Capital Market**

**Units** **NASDAQ Capital Market**

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

**None.**

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

**None.**

On September 23, 2014, the issuer had 7,033,059\* ordinary shares outstanding.

\*Excluding 1,500,000 Class C Shares in escrow that are subject to certain net income targets and after giving effect to the redemption of 3,500,000 Class A Shares.

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

Large Accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

Item 17  Item 18

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

Yes  No

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## INTRODUCTORY NOTES

### Use of Certain Defined Terms

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

- “CIS,” “we,” “us,” “our” and the “Company” refers to CIS Acquisitions Ltd., a company organized in the BVI;
- “Elite” refers to Elite Ride Limited, which is our wholly owned subsidiary and a company organized in the BVI;
- “Delta” refers to Delta Advanced Materials Limited, a Hong Kong company, as well as Delta’s four wholly-owned 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”).
- “Business Combination” refers 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.

### **Forward-Looking Information**

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 consumer preferences and develop new menswear 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**

#### **A. Directors and Senior Management**

Our directors and executive officers immediately following the consummation of the Business Combination are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Xin Chao	37	Chairman and Chief Executive Officer
Richard Yan	39	Chief Financial Officer
David Chi-Ping Chow	51	Independent Director (1)(2)(3)
Richard Liu	44	Independent Director (1)(2)(3)
Changuang Wu	46	Executive Director
George Kaufman	39	Independent 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:

**Xin Chao** has over 10 years of experience in the fine chemical industry. From 1999 to 2000, Mr. Chao worked as a sales manager at Sinopec International Corporation where he was actively involved in international trading matters. From 2000 to 2002, he worked at Lianshui County Zhengxin Chemical Co., Ltd. as the general manager in charge of the entire business operations of the company. Subsequently, in August 2002 and August 2003, Mr. Chao co-founded (i) Danyang Beijiate Materials Trading (“Beijiate Materials”) and (ii) Danyang Beijiate Chemicals Co., Ltd. (“Beijiate Chemicals”) respectively, where he was responsible for the daily operations of both Beijiate Materials and Beijiate

Chemicals. Mr. Chao co-found Jiangsu Delta, and he was the general manager of Jiangsu Delta when it was incorporated as a wholly foreign-owned enterprise on 15 June 2007. Mr. Chao subsequently acquired the entire equity interest in Jiangsu Delta from S&S International through Hong Kong Huilong International Investment Limited (formerly known as Hong Kong Zhengxin International Investment Limited) (which was controlled by Mr. Chao) on 13 April 2008. Since its incorporation, Mr. Chao has been actively involved in the operations and management of Jiangsu Delta. Mr. Xin Chao graduated from Nanjing University with a Bachelor's Degree in International Trading.

**Hong Yan** has been serving as the chief financial officer of Delta Advanced Materials Limited since May 2011. He is responsible for the preparation of all financial statements as well as for reviewing and developing effective financial policies and control procedures for Delta. From 1997 to 2002, Mr Yan was the Assistant Manager in the Financial Advisory Services Department of KPMG Shanghai, where he was responsible for carrying out statutory audits, rendering an in depth understanding of the International Financial Reporting Standards. From 2002 to 2004, Mr Yan served as the Financial Controller of Hartcourt Companies Inc, where he supervised the company's accounts department. Hartcourt Companies Inc, which is listed on the US Stock Exchange, distributes computer hardware and peripherals made by Samsung Electronics in Shanghai. From 2004 to 2006, he assumed the position of Vice President of Finance of Sancon Resources Recovery Inc, an environmental service and waste management company that operates recycling facilities in China and Australia, where he was responsible for overseeing the financial and accounting matters of the company, as well as liaising with and reporting to the US Securities and Exchange Commission in relation to compliance issues. Sancon Resources Recovery Inc is also listed on the US Stock Exchange. From 2006 to 2011, Mr Yan served as the managing partner of Shanghai KRC Business Consulting Co., Ltd., a consultancy on audit, tax and advisory services which he co-founded and still co-owns. Mr. Yan graduated with a Bachelor's Degree in Accounting and a Masters of Business Administration, both from Shanghai Jiao Tong University and is a member of the Chinese Institute of Certified Public Accountants.

**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 Beijiate Materials Trading ("Beijiate Materials") and (ii) Danyang Beijiate Chemicals Co., Ltd. ("Beijiate Chemicals") respectively with Mr. Xin Chao, where he was mainly responsible for the management of both Beijiate Materials and Beijiate Chemicals. While he was involved in the management of Beijiate Materials and Beijiate 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.

**David Chi-Ping Chow** is currently the General Manager for China at Interclients LLC and a partner at Shanghai China Bay Partners. Mr. Chow is a United States Certified Public Accountant and an American Certified Tax Practitioner. He has 27 years of experience in financial planning, corporate internal control and audit, strategic planning and implementation. Mr. Chow previously has worked as the Chief Financial Officer for China at General Mills and Haagen-Dazs, Xian Janssen Pharmaceutical (a subsidiary of Johnson & Johnson group), respectively. He was the Chief Financial Officer for Greater China of Pillsbury and Haagen-Dazs, the Chief Financial Officer for China and Vice-President of Supply Chain for Nabisco. He was a partner of Speakman & Price public accounting firm and a financial analyst of Motorola. Mr. Chow graduated with a Bachelor in Accounting from Santa Clara University, California. He also received management training from Columbia University and Northwestern University.

**Richard Liu** has over twenty years' experience in business and legal practice. He is a partner and director of securities investment section of Shanghai Huiye Law Firm since December 12, 2006. He was a legal assistant at Baker& McKenzie's Shanghai office from May 2004 through October 2006. Prior to that, he was Senior Consultant of Overseas Consulting department, Shanghai Foreign Service Company from June 2001 to April 2004. He received his

bachelor's degree in law from the Art College of Shanghai University.

**George Kaufman** is a Managing Director of Investment Banking with Chardan Capital Markets, LLC, a New York based investment bank. Mr. Kaufman is a director of Prime Acquisition Corp., a company that owns and operates office, commercial and industrial properties in Italy and is focused on building a portfolio of high-yield assets primarily in Europe. Mr. Kaufman founded Detroit Coffee Company, LLC, a national roaster, wholesaler and retail distributor of high-end specialty coffees, in January 2002 and currently serves as its chief executive officer. Mr. Kaufman received a Bachelor of Arts degree in Economics from the University of Vermont in 1999.

## **B. Advisors**

Forbes Hare acts as the BVI counsel to us. Sichenzia Ross Friedman Ference LLP acts as United States counsel to us.

## **C. Auditors**

From the Company's inception through the consummation of the Business Combination, Marcum LLP, an independent registered public accounting firm, 750 Third Avenue, New York, NY 10017, has acted as the Company's independent registered public accounting firm.

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

**A. Offer Statistics**

Not applicable.

**B. Method and Expected Timetable**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

*Selected Financial Data of CIS*

The following selected financial data, other than selected operating data, have been derived from CIS’ audited financial statements for the year ended October 31, 2013, the period from November 28, 2011 (Inception) to October 31, 2012 and from CIS’ unaudited financial statements for the six months ended April 30, 2014. The financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

	For the Six Months Ended April 30, 2014	For the Six Months Ended April 30, 2013	For the Year Ended October 31, 2013	For the Period November 28, 2011 (Inception) Through October 31, 2012
Statement of Operations Data	(unaudited)	(unaudited)		

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Loss from operations	\$(317,912 )	\$(80,112 )	\$(213,819 )	\$(4,873 )
Net loss	\$(265,132 )	\$(4,068,131 )	\$(3,429,198 )	\$(4,873 )
Loss from operations per share	\$(0.19 )	\$(0.05 )	\$(0.14 )	\$(0.00 )
Weighted average shares outstanding	1,636,000	1,460,309	1,548,877	1,000,000

Balance Sheet Data

Working capital (deficiency)	\$(172,693 )	\$285,907	\$145,219	\$(322,217 )
Total assets	\$41,671,382	\$41,925,589	\$41,819,280	\$374,782
Total liabilities	\$3,406,674	\$4,034,682	\$3,289,440	\$354,655
Value of shares which may be redeemed for cash	\$36,400,000	\$36,400,000	\$36,400,000	\$-
Total shareholders' equity	\$1,864,708	\$1,490,907	\$2,129,840	\$20,127

*Selected Financial Data of Delta*

Following the Acquisition, Delta is considered to be our predecessor for accounting purposes, as further described in Item 18 of this report. The following table presents selected financial data regarding Delta's business. It should be read in conjunction with its consolidated financial statements and related notes contained elsewhere in this report and the information under Item 5 "Operating and Financial Review and Prospects." The selected consolidated statement of income data for the fiscal years ended June 30, 2014, 2013 and 2012, and the selected consolidated balance sheet data as of June 30, 2014, 2013 and 2012 have been derived from Delta's audited consolidated financial statements that are included in this report in Item 18, beginning on page F-1. Selected financial data for the fiscal years ended June 30, 2011 and 2010 below is derived from unaudited financial statements of Delta for the specified periods.

Delta's consolidated financial statements were prepared and presented in accordance with U.S. GAAP and presented in U.S. dollars. The selected financial data information is only a summary and should be read in conjunction with the historical consolidated financial statements and related notes contained elsewhere herein. The financial statements contained elsewhere fully represent our financial condition and operations; however, they are not indicative of our future performance.

	<b>For the Years Ended June 30,</b>				
	2014	2013	2012	2011	2010
Statement of Income Data				(unaudited)	(unaudited)
Revenue	\$175,327,717	\$124,218,213	\$95,627,051	\$70,237,743	\$14,131,930
Cost of sales	\$(157,904,729)	\$(99,733,216)	\$(69,686,610)	\$(49,148,428)	\$(10,710,804)
Gross profit	\$17,422,988	\$24,484,997	\$25,940,441	\$21,089,315	\$3,421,126
Income from operations	\$11,634,940	\$17,842,614	\$19,088,375	\$17,664,456	\$3,144,742
Net income	\$6,828,308	\$11,705,736	\$10,471,574	\$5,777,069	\$2,035,768
Comprehensive income	\$7,144,747	\$13,315,616	\$11,803,575	\$8,220,811	\$2,170,808
Balance Sheet Data					
Working capital (deficiency)	\$(27,362,427 )	\$(14,773,509 )	\$16,818,269	\$10,804,724	\$(6,648,513 )
Total assets	\$206,531,300	\$167,039,000	\$143,644,914	\$97,800,629	\$58,750,752
Total liabilities	\$151,071,926	\$118,724,373	\$108,645,903	\$74,605,193	\$43,776,127
Total equity	\$55,459,374	\$48,314,627	\$34,999,011	\$23,195,436	\$14,974,625





## **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 or the Business Combination.

### **Risk Factors Relating to Delta**

*Delta is subject to the PRC's environmental protection measures.*

Delta’s 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 sulphur dioxide. Such discharges must be made in compliance with national environmental regulation. The Pollutant Discharge Permit is valid from October 20, 2012 to October 19, 2015, after which it will be due for renewal.

Additionally, its 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 re-commenced its operations. If more stringent environmental protection laws and regulations are introduced in the future, incident as such might happen again and Delta may need to utilize significant financial and/or other resources to ensure compliance, which will result in an increase in its operating costs and have an adverse effect on its profitability and prospects.

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

***Delta depends on its key personnel for continued success.***

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

Delta's key management team also includes Xin Chao, Wu Changguang, Xia Jianmin, Ming Chao and Hong Yan. The continued success its business is therefore dependent, to a large extent, on its ability to retain the services of its directors and executive officers. Each of Chao Xin, Wu Changguang and Ming Chao has more than 13 years of experience in the fine chemical and/or related industries. The loss of the services of its key personnel without a suitable and timely replacement, or the inability to attract and retain other qualified personnel, could adversely affect its operations and hence, its financial results.

***Delta is subject to fluctuations in the prices of principal raw materials in its operations.***

The key components and raw materials used in Delta's production and manufacturing processes are Toluene, Chlorine, Benzene, Styrene and Phthalic Anhydride, Maleic Anhydride, Propylene glycol and Ethylene diglycol which in aggregate constituted approximately 80% of its total cost of sales. As these materials constitute key components of its manufacturing processes, any fluctuation in the prices of such raw materials which may in turn have an impact on its production costs. In line with industry practice, Delta do not have long-term supply contracts with its suppliers. A shortage of any key raw materials or components could limit its production, and is likely to increase the costs of its products, thereby depressing the margins for its products. Further, although Delta produces 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 Delta will be able to continue to do so in a cost-effective manner.

There is no assurance that Delta 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 its 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 its production costs. In the event of any significant increase in the cost of such raw materials, and should Delta be unable to pass on such costs to its customers on a timely basis, its business, profitability and financial performance will be adversely affected.

*Delta is vulnerable to fluctuations in the prices of its products.*

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

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

***Delta may be affected by disruptions to its processing facilities.***

Delta's 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, Delta may need to carry out planned shutdowns of its 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 its 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 its business, results of operations and financial condition.

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

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

***Delta's insurance coverage may not adequately protect it against certain operating and other hazards which may have an adverse effect on its business.***

Delta makes 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. Delta maintains insurance policies covering losses due to fire and other calamities. Delta also maintains 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 its insurance coverage may be inadequate to cover such loss. Should an uninsured loss or a loss in excess of insured limits occur, Delta could suffer from damage to its reputation or lose all or a portion of production capacity as well as future revenues anticipated to derive from the relevant facilities. While Delta maintains coverage from insurance policies for its production facilities which are in line with the industry norms, Delta cannot assure you that its insurance coverage would be sufficient to cover all its potential losses.

***Delta's profitability may be affected by a failure to compete effectively in a competitive environment.***

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

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

***Delta's business may be adversely affected if its customers place lower than expected orders.***

As is customary in its industry, Delta does not obtain firm and long-term volume purchase commitments from its customers. Although Delta may from time to time enter into sales agreements with its 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, Delta faces the risk that its 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 it for particular orders, Delta may be unable to or, for other business reasons, choose not to enforce its contractual rights

if the customers terminate their orders. Cancellations, reductions or instructions to delay production by a significant customer could materially and adversely affect its results of operations by reducing its sales volume, as well as by possibly causing a delay in the customers' repayment of its expenditures for inventory and resulting in lower utilization of the manufacturing facilities, all of which may result in lower gross margins.

***Delta's reputation may suffer if Delta fails to manufacture products within the acceptable quality range and optimal production yields.***

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 Delta's customers require stringent quality requirements in the procurement of their supplies.

Delta has in place stringent quality control processes as set out in the section "Quality Control" of this rep and ensure that its raw materials, manufacturing systems and processes and products meet the highest standards of quality. If Delta fails to maintain high quality production standards, its reputation may suffer and customers may cancel their orders or return their products for replacement, which will materially and adversely affects its results of operations and financial condition.

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

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



***Delta may be exposed to risk of infringement of its intellectual property rights.***

Delta relies primarily on patent, trademark, trade secret, copyright law and other contractual restrictions to protect its intellectual property. Nevertheless, these afford only limited protection and the actions Delta may take to protect its intellectual property rights may not be adequate. Third parties may infringe or misappropriate its proprietary technologies or other intellectual property rights, which could have a material adverse effect on its business, financial condition, results of operations and prospects. As of the date of this Offer to Purchase, Delta owns five patents in respect of UPR production and is in the midst of applying for seven more patents.

Although Delta's 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 unauthorised disclosure of its trade secrets or other proprietary information. In the event that there is a leakage of such trade secrets or proprietary information to its competitors and other third parties, it may limit its ability to maintain its competitive edge and to grow its business.

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

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

As set out in the section entitled "Strategies and Future Plans", Delta intends to, inter alia, expand its production capacity and product lines, as well as its 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 its control, such as retaining and recruiting qualified and skilled staff, and the continued demand for its products by its customers. Failure to implement any part of its future plans or executing such plan costs effectively, may lead to a material adverse change in its operating environment or affect its ability to respond to market or industry changes, which may, in turn, adversely affect its business and financial results.

***Delta is exposed to the credit risks of its customers.***

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

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

***Delta may require additional funding for future growth.***

Delta's business and the nature of the industry in which Delta operates may require it to make substantial capital expenditures in terms of both plants, equipment and for research and development capabilities. In particular, Delta may expand its production capacity in certain of its 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 Delta may in the future incur operating losses if its net operating revenue does not adequately recover its capital expenditures.

In connection with its business strategy, Delta has continued to make regular capital investments and expenditures. Delta expects to incur further capital expenditures for FY2015 in connection with the construction and the expansion of production facilities.

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

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

***Delta is dependent on its "DELTA" brand.***

Delta relies on its "DELTA" brand in the marketing and distribution of its products. Delta believes that it has built significant goodwill in its brand in terms of the quality of products and services and it is widely recognized by the fine chemical industry in the PRC. Delta considers its "DELTA" brand to be vital in promoting product recognition and customer loyalty. Hence, if there are any major defects in its products or adverse publicity on its brand, the goodwill in its brand will be adversely affected and its customers may lose confidence in its products. This will adversely affect its sales of products, hence affecting its business and financial performance.

In order to protect its trademark, Delta has applied to register its "DELTA" label as a trademark in the PRC. Delta relies on PRC trademark laws but there is no assurance that this means of protecting its trademark will be effective or that its competitors will not adopt product names or trademarks that are similar to that of ours. Delta is also vulnerable to attempts by third parties to pass off their products as ours by using its trademark. Adequate protection of its intellectual property is important to its business. Although Delta may take legal action against those who infringe its

intellectual property rights, it may need to incur substantial time and resources and there is no assurance that Delta will be able to stop or prevent such infringement completely. Unauthorized use of its trademarks could adversely affect its performance and business reputation. Should such counterfeit products be of inferior quality, the goodwill in its brand may be eroded. Hence, its business and financial performance will be adversely affected if Delta is unable to protect its intellectual property rights effectively.

***Defective or non-compliant products may lead to negative publicity which would adversely affect Delta's business and profits.***

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

### **Additional Risk Factors to Consider**

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

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

*Potential claims alleging infringement of third party's intellectual property by Delta could harm its ability to compete and result in significant expense to it 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 Delta's business. Any claims that its 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 it to incur significant costs in responding to, defending, and resolving such claims, and may divert the efforts and attention of its management and technical personnel away from the business. As a result of such intellectual property infringement claims, Delta 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 it to recognize an impairment of its assets, which would reduce the value of the assets and increase expenses. In addition, if Delta alters or discontinue the production of affected items, its revenue could be negatively impacted.

### **Risks Relating to Doing Business in the PRC**

*Delta's 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 its PRC subsidiaries and its officers and directors.*

Delta's PRC subsidiaries, Jiangsu Delta, Jiangsu Zhengxin R&D, Jiangsu Logistic and Binhai Deda were established in the PRC, and their main operations and assets are located in the PRC. Delta's PRC subsidiaries, main operations and assets are therefore subject to the relevant laws and regulations of the PRC. In addition, a majority of its officers and directors are non-residents of the U.S., and substantially all their assets are located outside the U.S. As a result, it could be more difficult for investors to effect service of process in the U.S., or to enforce a judgment obtained in the U.S. against any of its PRC subsidiaries or any of these persons.

*Delta's business is subject to certain PRC laws and regulations.*

Delta's 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 its business.

Breaches or non-compliance with these PRC laws and regulations may result in the suspension, withdrawal or termination of its business licenses or permits, or the imposition of penalties, by the relevant authorities. Delta's 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 its PRC subsidiaries' business licenses or permits would cause the cessation of production of certain or all of its products, and this would adversely affect its PRC subsidiaries' business, financial performance and prospects.

***Uncertainty in the PRC legal system may make it difficult for Delta to predict the outcome of any disputes that it 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 Delta's 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 Delta's 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 the PRC Counsel. If the CSRC or any other Chinese regulatory bodies subsequently determine that Delta needs to obtain the CSRC approval for the acquisition of PRC subsidiaries of Delta, Delta may face regulatory actions or other sanctions from the CSRC or other Chinese regulatory bodies. This may have a material adverse impact on Delta's business, financial condition, results of operations, remittance of profits as well as the trading prices of its shares.

***Failure of Delta's PRC resident shareholders to comply with regulations on foreign exchange registration of overseas investment by PRC residents could cause it to lose its ability to contribute capital to its 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.

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

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

***Delta's results and financial conditions are highly susceptible to changes in the PRC's political, economic and social conditions as its revenue is currently wholly derived from its 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 its operations in the PRC or a material adverse impact on its financial performance. Delta's 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 Delta by its PRC subsidiaries may be subject to PRC withholding taxes, dividends distributed to its non-PRC investors and gains realized by its non-PRC shareholders from the transfer of its shares may be subject to PRC withholding taxes under the EIT Law.***

The 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 Delta is 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. Delta's subsidiaries in China are directly invested in and held by a Hong Kong registered entity. If Delta is regarded as a non-resident enterprise and its Hong Kong entity regarded as resident enterprise, then its Hong Kong entity may be required to pay a 10% withholding tax on any dividends payable to it. If its Hong Kong entity is regarded as non-resident enterprises, then its subsidiaries in China will be required to pay a 5% withholding tax for any dividends payable to its Hong Kong entities provided that specific conditions are met. However, it is still unclear at this stage whether Circular 601 applies to dividends from its PRC subsidiaries paid to its Hong Kong subsidiary and if its Hong Kong subsidiary were not considered as "beneficial owners" of any dividends from its PRC subsidiaries, the dividends payable to its Hong Kong subsidiary would be subject to withholding tax at a rate of 10%. In either case, the amount of funds available to it, including the payment of dividends to its shareholders, could be materially reduced. In addition, because there remains uncertainty regarding the concept of "the place of de facto management body," if Delta is regarded as a resident enterprise, under the EIT Law, any dividends to be distributed by it to its non-PRC shareholders will be subject to PRC withholding tax. Delta also cannot guarantee that any gains realized by such non-PRC shareholders from the transfer of its shares will not be subject to PRC withholding tax. If Delta is required under the EIT Law to withhold PRC income tax on its dividends payable to its non-PRC shareholders or any gains realized by its non-PRC shareholders from transfer of its shares, their investment in its shares may be materially and adversely affected.

***Delta may be subject to a significant withholding tax should equity transfers by its 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 Delta believes that its transactions during all the periods presented would be determined to have reasonable business purposes, should this not be the case, the Company would be subject to a significant withholding tax that could materially and adversely impact its financial position, results of operations and

cash flows.

***Uncertainty in the interpretation of PRC tax regulations may have a negative impact on Delta's business operations, its acquisition or restructuring strategy or the value of its 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, Delta and its 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 Delta should not be taxed under SAT Circular 698, which may have a material adverse effect on its financial condition and results of operations or such non-resident investors’ investments in it. Delta have conducted and may conduct transactions involving its corporate structure. Delta cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on it or require it to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of its shares or any adjustment of such gains would cause it to incur additional costs and may have a negative impact on the value of your investment in it.

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

As an offshore holding company, its ability to make loans or additional capital contributions to its PRC operating subsidiaries is subject to PRC regulations and approvals. These regulations and approvals may delay or prevent it from using the proceeds Delta received in the past or will receive in the future from the offerings of securities to make loans or additional capital contributions to its PRC operating subsidiaries, and impair its ability to fund and expand its business which may adversely affect its 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 Delta's ability to transfer the net proceeds from offerings of its securities or any future offering to its PRC subsidiaries and convert the net proceeds into RMB, which may adversely affect its liquidity and its ability to fund and expand its business in the PRC.

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

Delta's reporting currency is the U.S. dollar and its operations in China use RMB as functional currencies. The majority of its revenues derived and expenses incurred are in Chinese RMB with a relatively small amount in U.S. dollars. Delta is 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 Delta's 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 its 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 its non-U.S. operations. Delta is also exposed to foreign exchange rate fluctuations as Delta converts the financial statements of its 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 into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income. Delta has not entered into agreements or purchased instruments to hedge its exchange rate risks, although Delta may do so in the future. The availability and effectiveness of any hedging transaction may be limited and Delta may not be able to successfully hedge its 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. Delta cannot be sure that Delta will be able to obtain all required conversion approvals for its operations or that Chinese regulatory authorities will not impose greater restrictions on the convertibility of RMB in the future. Because a significant amount of its future revenues may be in the form of RMB, its inability to obtain the requisite approvals or any future restrictions on currency exchanges could limit its ability to utilize revenue generated in RMB to fund its business activities outside China, or to repay non-RMB-denominated obligations, including its debt obligations, which would have a material adverse effect on its financial condition and results of operations.

***Restrictions on paying dividends or making other payments to Delta bind its subsidiaries in China.***

Delta is a holding company and do not have any assets or conduct any business operations in China other than its investments in its subsidiaries in China. As a result, if its non-China operations require cash from China, Delta would depend on dividend payments from its subsidiaries in China. Delta cannot make any assurance that it can continue to receive payments from its subsidiaries in China. In addition, under Chinese law, its subsidiaries are only allowed to pay dividends to it out of their distributable earnings, if any, as determined in accordance with Chinese accounting standards and regulations. Moreover, Delta's 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 its subsidiaries under PRC accounting standards. In addition, under the EIT Law and its implementing Rules, dividends generated from its 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 its 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. Delta has experienced and may continue to experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. If Delta or any of its subsidiaries are unable to receive substantially all of the economic benefits from its operations through these contractual or dividend arrangements, Delta may be unable to effectively finance its operations or pay dividends on its 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 Delta to pursue growth through acquisitions in China.***

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

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

There is no requirement for foreign investors in those mergers and acquisitions transactions already completed prior to the promulgation of Circular 6 to submit such transactions to the Ministry of Commerce for security review. As Delta has already obtained the “de facto control” over its affiliated PRC entities prior to the effectiveness of these rules, Delta does not believe Delta is required to submit its 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 its PRC subsidiaries. If Delta is 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 its income, revoking its PRC subsidiaries' business or operating licenses, requiring it to restructure or unwind the relevant ownership structure or operations. Any of these actions could cause significant disruption to its business operations and may materially and adversely affect its business, financial condition and results of operations. Further, if the business of any target company that Delta plans to acquire falls into the ambit of security review, it may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or through any contractual arrangement. Delta may grow its business in part by acquiring other companies operating in its 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 its ability to complete such transactions, which could affect its ability to expand its business or maintain its market share.

***The PRC Labor Contract Law and its implementing rules may adversely affect its 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 Delta decides to significantly reduce its workforce, the PRC Labor Contract Law could adversely affect its ability to do so in a timely and cost effective manner, and its results of operations could be adversely affected. In addition, for employees whose contracts include non-competition terms, the Labor Contract Law requires it to pay monthly compensation after such employment is terminated, which will increase its operating expenses.

***Failure by Delta's PRC shareholders or beneficial owners to make required foreign exchange filings and registrations may prevent Delta from distributing dividends and expose Delta 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.

The existing shareholders and beneficial owners of Delta 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 Delta’s business operations or future strategies. Any failure by Delta’s 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 Delta’s overseas or cross-border investment activities, limit Delta PRC subsidiaries’ ability to make distributions or pay dividends, or affect its ownership structure and capital inflow from its offshore subsidiaries. As such, Delta’s business, financial condition, results of operations and liquidity as well as its ability to pay dividends or make other

distributions to its shareholders may be materially and adversely affected.

*There are defects in Delta's titles of or rights to use its properties.*

Delta has not received the record of completion acceptance from the relevant authority for its facilities used in its production and storage ("Properties"). Delta does 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 Delta's operations, financial condition, reputation and future growth. However, we are in the process of applying to relevant authority to obtain the completion acceptance for the Properties.

***Delta is manufacturing certain products that are beyond its business scope.***

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

***Delta 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 be imposed penalty of RMB 500,000 to RMB 1,000,000 by relevant authority. However, Jiangsu Delta is applying 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, Delta's production might not keep up with the demand of its customers, which may adversely affect Delta's revenue and financial conditions.

**Risks Relating to CIS' Securities**

***While CIS believes that it currently has adequate internal control procedures in place, CIS is 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 its management, CIS has evaluated its 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, CIS has incurred additional expenses and a diversion of management's time.

If CIS fails to maintain effective internal control over financial reporting in the future, a material misstatement of its financial statements may not be prevented or detected on a timely basis. In addition, CIS may not be able to conclude on an ongoing basis that CIS has 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 its financial statements and negatively impact the trading price of its shares. Furthermore, if CIS is not able to continue to meet the requirements of Section

404 in a timely manner or with adequate compliance, Delta might be subject to sanctions or investigation by regulatory authorities, such as the SEC or the NASDAQ. Any such action could adversely affect its financial results and the market price of its ordinary shares.

***As a foreign private issuer, CIS has limited reporting requirements under the Securities Exchange Act of 1934, which makes it less transparent than a United States issuer.***

As a foreign private issuer, the rules and regulations under the Exchange Act provide it with certain exemptions from the reporting obligations of United States issuers. CIS is exempt from the rules prescribing the furnishing and content of proxy statements, and its officers, directors and principal stockholders are exempt from the reporting and short-swing profit recovery provisions. Also, CIS is not required to publish financial statements as frequently, as promptly or containing the same information as United States companies. The result is that CIS will be less transparent than a U.S. issuer.

***CIS 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 its ordinary shares, the value of its assets, and the composition of its assets and income, CIS does not believe that it was a passive foreign investment company (a "PFIC") for United States federal income tax purposes for its taxable year ended June 30, 2014 and CIS does not expect to be one for its taxable year ending June 30, 2015 or become one in the foreseeable future. Nevertheless, the application of the PFIC rules is subject to ambiguity in several respects and, in addition, CIS must make a separate determination each year as to whether CIS is a PFIC (after the close of each taxable year). Accordingly, CIS cannot assure you that CIS will not be a PFIC for the current or any other taxable year.

A non-United States corporation, such as its company, 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 its PFIC status for the current or any other taxable year.

If CIS is 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 its ordinary shares and on the receipt of distributions on its notes or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules.

***CIS did not obtain a fairness opinion from an independent investment banking firm as to the fair market value of Delta.***

The fair market value of Delta was determined by its board of directors based upon an analysis conducted by them (which may include an analysis of actual and potential sales, earnings, cash flow and/or book value), and CIS did not obtain an opinion from an unaffiliated, independent investment banking firm. CIS’s shareholders must, therefore, rely solely on the judgment of its board of directors with respect to the determination of the fair market value of its initial acquisition transaction.

***CIS has outstanding exercisable securities that may dilute your holdings.***

CIS’s outstanding exercisable securities may adversely affect the market price of its shares.

CIS currently has issued and outstanding securities exercisable into 9,060,000 ordinary shares (warrants for the purchase of 8,500,000 shares and a unit purchase option for 280,000 shares and warrants to purchase 280,000 shares). The sale or possibility of sale of the shares underlying these securities could have an adverse effect on the market price for its securities or its ability to obtain future financing. If and to the extent these securities are converted or exercised, you may experience dilution to your holdings.

***One of CIS’s stockholders holds a significant percentage of its outstanding voting securities.***

Mr. Xin Chao, who is our Chief Executive Officer and Chairman of the Board, directly or indirectly owns approximately 34.27% of our outstanding voting securities. As a result, he possesses significant influence, giving him the ability, among other things, to elect a majority of its Board of Directors and to authorize or prevent proposed significant corporate transactions. His ownership and control may also have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination or discourage a potential acquirer from making a tender offer, all of which may prevent it from implementing its business strategies.

#### **Additional Risk factors to Consider**

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

CIS's corporate affairs are governed by its 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 its directors, actions by minority shareholders and the fiduciary responsibilities of its 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 its shareholders and the fiduciary responsibilities of its 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 its ordinary shares may have more difficulty in protecting their interests through actions against its 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 CIS's 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 CIS or its executive officers and directors in jurisdictions outside the United States.***

Under its Memorandum and Articles of Association, CIS may indemnify and hold its 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 it, any of its 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 its 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 CIS 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

CIS 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 includes a portion of the \$3,375,000 of proceeds from the private placement of warrants to the founding shareholders and their designees, has been 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 CIS, Elite, Delta and the shareholders of Elite (the "Elite Shareholders").

#### *Acquisition of Elite*

Upon the closing of the transaction pursuant to the Purchase Agreement, CIS acquired all of the shares held by the shareholders of Elite (the "Acquisition"). Pursuant to the Purchase Agreement, all holders of shares of Elite exchanged their shares of Elite for shares of CIS as more fully described below. As a result, following the Acquisition, the Delta Companies became wholly-owned subsidiaries of CIS.

#### *Acquisition Consideration*

The Elite Shareholders of all of the outstanding shares of Elite (the "Elite Shares") immediately prior to or at the time of closing sold, conveyed, transferred, assigned each of their Elite Shares to CIS which issued to the Elite Shareholders an aggregate of 6,060,000 ordinary shares of CIS, par value \$0.0001 per share ("CIS Common Stock") as payment for

the Elite Shares (the “Purchase Price”). The Purchase Price was paid as follows: (i) 4,560,000 shares of CIS Common Stock was issued at closing; plus (ii) an additional 1,500,000 shares of CIS Common Stock was issued and placed in escrow pursuant to an Escrow Agreement and shall be released based upon the meeting of certain net income performance targets as specified in the Purchase Agreement and summarized below (the “Earnout Payment Shares”).

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 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. A “material acquisition” is an acquisition that would, when comparing the most recent annual financial statements of each company, result in a change of 5% or more to the Company’s revenue, net income, total liabilities or total assets. To be “accretive”, an acquisition must be acquired at a P/E ratio that is at a 20% discount to the P/E ratio at which the Company is trading (based on the last sales price) on the day prior to the date that the definitive agreement for the acquisition is signed. 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, CIS issued 500,000 shares of CIS Common Stock to Kyle Shostak and CIS Acquisition Holding Co. Ltd. (collectively, the “CIS Sponsor”), proportionally in accordance with their ownership in CIS.

### ***Value Ratchet***

If the 10 trading day volume weighted average price of the CIS Common Stock (the “VWAP”) is lower than \$5.00 per share on the principal stock exchange on which such stock is traded on the earlier to occur of (i) the 395th day after the closing and (ii) the 30th day after the SEC declares a registration statement filed by CIS effective during the first 12 months after the closing, then CIS will issue the CIS Sponsor, proportionally in accordance with their respective share ownership in CIS, an additional number of shares of CIS Common Stock equal to (i) (a) \$5.00 minus the VWAP, divided by the VWAP, multiplied by (ii) the lesser of (a) 1,500,000 and (b) the total number of shares of CIS Common Stock owned by CIS Sponsor on such date. The total number of CIS Common Stock will be reduced by the number of shares CIS Sponsor sells during 13 months post-closing.

### ***Arrangement with Respect to Proceeds of CIS’ Public Warrants and CIS Sponsor Warrants***

CIS has agreed that in the event that there is any exercise of CIS Public Warrants which were issued in CIS’ initial public offering or the warrants to purchase CIS Common Stock issued to any CIS Sponsor, any proceeds of such exercise shall be paid to certain shareholders of Elite. CIS will not retain any portion of the proceeds of such exercise.

### ***Call Agreement***

CIS and the CIS Sponsor agreed to enter into a Call Agreement (the “Call Agreement”) mutually acceptable to CIS, Elite and the CIS Sponsor pursuant to which CIS shall be permitted, between the 360<sup>th</sup> and 390<sup>th</sup> after the closing date, to require the CIS Sponsor to sell to it, at a price of \$5.00 per share, up to 1,500,000 shares of CIS Common Stock.

### ***Amendment to CIS Placement Warrants***

In connection with the Acquisition, the CIS Sponsor amended the 4,500,000 CIS Placement Warrants owned by the CIS Sponsor to provide that such warrants may be redeemed in the event CIS Common Stock trades at a price of \$17.50 per share for a period of ten (10) consecutive trading days and that such warrants may not be exercised on a cashless basis.

### ***Representations; Covenants***

Each of the parties to the Purchase Agreement made customary representations to the other parties to the Purchase Agreement.

*Conditions to Closing*

The obligation of each party to complete the Acquisition and the transactions contemplated by the Purchase Agreement were conditioned, among other things, upon the satisfaction of the following conditions: (i) no provision of any applicable law, and no order shall have prohibited or imposed any condition on the consummation of the Closing; (ii) there shall not have been pending any action brought by a third-party non-affiliate to enjoin or otherwise restrict the consummation of the Closing; (iii) holders of not less than 12.5% of the IPO Shares (as defined in CIS's Amended and Restated Memorandum and Article of Association) shall have agreed to convert from Class A Shares to Class C Shares (each as defined in CIS's Amended and Restated Articles of Association) in connection with the Closing; (iv) all authorizations, approvals and permits required to be obtained from or made with any authority in order to consummate the transactions contemplated by the Purchase Agreement shall have been obtained or made; and (v) each party shall have entered into and delivered a counterpart signature page of each additional agreement required under the Purchase Agreement.

The obligation of CIS to consummate the Acquisition was conditioned, among other things, upon the satisfaction, or the waiver at CIS's sole and absolute discretion, of the following further conditions: (i) Delta having duly performed in all material respects all of its obligations under the Purchase Agreement at or prior to the Closing Date; (ii) certain representations and warranties were true and correct in all respects; and (iii) no material adverse effect shall have occurred since the date of the Purchase Agreement.

The obligations of Delta and Elite to consummate the Acquisition were conditioned, among other things, upon the satisfaction, or the waiver at Delta and Elite's sole and absolute discretion, of the following further conditions: (i) CIS having duly performed in all material respects all of its obligations under the Purchase Agreement at or prior to the Closing Date; (ii) the representations and warranties of CIS contained in the Purchase Agreement and in any certificate or other writing delivered by CIS pursuant thereto, disregarding all qualifications and expectations contained therein relating to materiality and material adverse effect shall have been true and correct in all material respects at and as of the Closing Date; (iii) no material adverse effect shall have occurred since the date of the Purchase Agreement; (iv) on the Closing Date, CIS shall have filed an application covering all shares of CIS Common Stock, including the Earnout Payment Shares, to be issued to the Elite Shareholders to approve such shares on The NASDAQ Capital Market, and CIS not having received any notice of delisting from the NASDAQ Capital Market; (v) CIS having at least \$5,000,000 in cash at the Closing, after payment of any and all expenses of CIS incurred prior to the Closing Date; and (vi) Delta having received approval of the transactions contemplated by the Purchase Agreement and to the restructuring of certain debt owned by the previously existing private equity firms.

#### ***Indemnification; Escrow of Closing Payment***

If it shall have violated, misrepresented or breached any of its representations, warranties, and covenants, Elite agreed to certain indemnification. For that purpose, of the indemnification, an aggregate of 1,500,000 shares are being held in escrow for a period of 12 months following the Merger in order to satisfy any indemnification obligations of Elite. These 1,500,000 shares are the shares that are being held in escrow until CIS meets certain income thresholds. If it shall have violated, misrepresented or breached any of its representations, warranties, and covenants, CIS agreed to indemnify the Elite stockholders up to \$1,000,000. For purposes of the indemnification provisions of the Agreement, each share included in the Closing Payment will be deemed to be worth \$10.40. However, no party shall be entitled to indemnification until the aggregate amount of Losses equals at least \$100,000.

#### ***Board of Directors and Voting Agreement***

Immediately after the Closing, the Board of Directors of CIS consisted of five (5) directors, composed of four (4) nominees designated by Elite, of which at least two (2) designees shall qualify as an independent director under the Exchange Act of 1934, as amended (the "Exchange Act"), and the rules of The NASDAQ Stock Market, if applicable, and one (1) nominee designated by CIS, who shall qualify as an independent director under the Exchange Act, and the rules of The NASDAQ Stock Market, if applicable. The parties to the Purchase Agreement entered into a mutually agreed upon voting agreement relating to nominees to the Board of Directors of CIS for a period of thirteen (13) months following the closing (the "Voting Agreement").

#### ***Registration Rights***

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

### *No Tender Offer*

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

## **B. Business Overview**

### *History of Delta*

Founded in 2007, Delta is a Hong Kong based manufacturer and distributor of 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. In its fiscal year ending June 30, 2014, Delta posted revenue of approximately \$175.3 million and net income of approximately \$7.0 million. Including a foreign currency adjustment, Delta's comprehensive income was approximately \$8.5 million in that period. Delta has approximately 300 employees, 25% of whom are highly-qualified experts and technical personnel. Delta serves more than 380 clients in automotive, pharmaceutical, agrochemical, dye & pigments, aerospace, ceramics, coating-printing and food additives industries.



### *History of Delta's Subsidiaries*

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 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.

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, Delta expanded Jiangsu Delta's principal business scope 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, 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 entered into between Zhengxin International and Delta Advanced Materials Limited, a Hong Kong corporation (“Delta”) for a consideration of US\$28.8 million. Delta, formerly known as China Deltachem Holdings Limited, which was incorporated on June 17, 2010 as a pure investment holding vehicle controlled by Mr. Yu Lan and 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 US\$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 April 29, 2011, Mr. Yu Lan transferred to each of Mr. Shen Lei and Mr. Yan Hong 112 shares in Delta at a price of HK\$1.00 per share. After the transfer, Delta was owned as to 9,776 shares by Mr. Yu Lan (97.76%), 112 shares by Mr. Shen Lei (1.12%) and 112 shares by Mr. Hong Yan (1.12%).

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. 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 at 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 10,605 Elite Shares in consideration for the forgiveness of an aggregate of \$3,400,000 of the Convertible Notes due to the Noteholders, and (ii) cause Master Kingdom Holdings Ltd., a British Virgin Islands company (“Master Kingdom”), which is owned 100% 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.

On August 18, 2012, Zhengxin International and Jiangsu Delta entered into a sale and purchase agreement, pursuant to which the entire equity interest of Jiangsu Zhengxin New Material R&D Co., Limited (“Jiangsu Zhengxin R&D”) was acquired by Jiangsu Delta from Zhengxin International at a consideration of RMB3.3 million. The acquisition of Jiangsu Zhengxin R&D was approved by the Danyang Bureau of Commerce on September 18, 2012 in accordance with “The Approval and Transfer of and the Alteration of Nature of Zhengxin New Material R&D Co., Limited”.

On December 17, 2013, Jiangsu Delta Logistics Co., Ltd (“Jiangsu Logistics”) was established by Jiangsu Delta with an initial registered capital of RMB 10 million located in Dantu District, Zhenjiang City, Jiangsu Province, PRC.

On June 8, 2013, Binhai Deda Chemical Co., Ltd (“Binhai Deda”) was established by Jiangsu Delta with an initial registered capital of RMB 5 million located in Binhai County, Zhenjiang City, Jiangsu Province, PRC.

By June 30, 2014, Delta had established a domestic sales network which covered Jiangsu Province, Anhui Province, Zhengjiang Province, Hubei Province, Guangdong Province and Chongqing Metropolitan with the number of its customers increased to approximately 380. With the expansion in its operations, Delta also increased its headcount to approximately 300 employees.

***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. Its principal executive offices are located at 16 Kaifa Avenue, Danyang, Zhenjiang, China, and its telephone number is +86 511-8673-3102.

**Business Overview**

Headquartered in Zhenjiang City, Jiangsu Province, Delta is a fast-growing 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, unsaturated polyester resin (“UPR”), maleic acid (“MA”) 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.

Delta collaborates with reputable universities, such as the East China Normal University in order to secure its position as a market leader. Delta also closely monitors 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, Delta has a diversified clientele with more than 380 customers based either in domestic or overseas market. Approximately 90% of its sales are to its 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.

Delta's revenue for the fiscal years ended June 30, 2012, 2013 and 2014 were approximately \$95.6, \$124.2 and \$175.3 million, respectively, and its profit before tax for the fiscal years ended June 30, 2012, 2013 and 2014 were \$14.9, \$15.8, and \$9.4 million, respectively.

## **Products**

Delta's products can be broadly divided into two major series, namely (i) PCT/OCT and (ii) UPR, which account for approximately 40% and 27% respectively of its total revenue in the fiscal year 2014. PCT/OCT together with its downstream products can be widely used in pharmaceuticals, pesticides, dyes and consumables manufacturing industries, whereas UPR is commonly used as (i) renovation materials for bathroom and kitchen, (ii) manufacturing materials for trains, cars, aircrafts and vessels, and (iii) infrastructure materials such as anti-collusion pipes and oil and gas pipelines. UPR is a light weight, relatively wear resistant and highly anti-corrosive material, and its unique features make it a popular replacement material for plastic and steel. In the fiscal year 2013, Delta sold approximately 40% of the PCT/OCT Delta produced and Delta consumed the balance as raw materials for the manufacturing of PCT/OCT downstream products ..

In addition, Delta manufactures MA, which is an intermediate product in producing UPR. Delta consumes most of the MA it produces as a production intermediary. A by-product of the production process of MA is heat energy, which Delta consumes efficiently for manufacturing its PCT/OCT products, where large-scale heat energy is required.

Delta places great emphasis on the research and development of its products to ensure Delta's continued success. As of the date of this report, Delta has successfully registered five patents in the PRC in relation to UPR production technologies, and PCT/OCT production technology, and environmental protection equipment technology, and it is also in the process of applying for seven more patents in relation to PCT/OCT and MA productions technologies and production of PCT/OCT environmental protection equipment.

## **Production Process**

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

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

### **Delta Supply Chain Management (SCM)**

The following diagram illustrates our business model with detailed service proposals in our Supply Chain Management business:

We started the servicing of third party clients in raw material procurement and trading in 2012, with an objective to expand our operations beyond being a conventional manufacturer. During the fiscal years ended June 30, 2012, 2013 and 2014 our revenue were approximately \$135,000, \$11 Million and \$49 Million and our gross profit (loss) was \$20,703, \$(659,199) and \$(330,982), respectively.

In 2013, Jiangsu Delta Logistics Ltd, a wholly-owned subsidiary with business approval in handling dangerous and toxic chemicals was founded, marking our launch of logistics and transportation services.

We have gathered from operating this new business that we shall make good use of our knowledge and experiences in manufacturing, logistics and international trade in the chemical business to act as a service provider in supply chain management for third-party clientele including manufacturers, distributors and retailers of chemical products. We have recently added a business division handling Internet financing to deploy the opportunities in supply chain financing.

## **Purchase of Raw Materials**

The major raw materials which Delta purchases include: Toluene, Chlorine, Benzene, Styrene and Phthalic Anhydride. Toluene and Chlorine are the two major raw materials for the PCT/OCT production. Benzene is the major raw material for MA production. Styrene and Phthalic anhydride are the two major raw materials for UPR production.

Delta sources its raw materials from a spread of proximate suppliers, and uses its own PCT/OCT and MA production as raw materials for PCT/OCT downstream products and UPR products. Most of its suppliers are located within the Yangtze River Delta region, and due to the hazardous nature of the raw materials, Delta emphasises on the need for a short transportation time and the safety requirements.

PCT/OCT raw materials take about one week for delivery on request, while MA raw materials take about three to five days, and UPR raw materials take about seven to ten days.

## **Delivery and Storage**

About 90% of the raw materials Delta uses are delivered to it by the suppliers (Delta picks up the other 10%), which buy insurance and bear all risks until goods are delivered to its warehouses, and the remainder is picked up by its employees.

Delta has on-site warehousing capacity, which allows it to store up to 6,000 tonnes of liquid or solid chemical materials.

The newly incorporated Jiangsu Logistics own 6 chemical products and trucks for transporting chemicals and is planning to increase its capacity to 6,000 tons.

## **Manufacturing and Processing**

Manufacturing and processing occurs at Delta's factory in Zhenjiang, which has an annual production capacity of 30,000 tons of PCT/OCT production and PCT/OCT downstream production, 25,000 tons of MA production and



18,000 tons of UPR production. Please see below the production flow diagrams for the various products for more details on how PCT/OCT, MA and UPR products are manufactured in its factory.

**(a) PCT/ OCT**

PCT/OCT forms the basic or intermediate products from which down-stream extended products can be further manufactured. Delta's annual capacity for PCT/OCT series are 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 customised treatments to manufacture down-stream derivative products. Delta re-processes 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

**(b) UPR**

Delta's UPR products are high-end resin products. Due to UPR's combination of unique strengths such as its lightness, toughness, durability, strength and anti-corrosive properties, it is widely used by various industries, like the construction industry, industrial equipment industry, transport industry and the infrastructure industry. Delta's production capacity for UPR was expanded from 9,000 tonnes in May 2010, to 18,000 tonnes annually in December 2010, and the factory operates at almost its maximum capacity presently. The simplified production process for the UPR products is as follows:

***Step 1: Reaction***

Di-ols and Di-acids, including MA, are the basic reactants for the production of UPR, which is a form of polyester. The reactants are delivered from their storage tanks into a stainless steel reactor for a controlled esterification process in the presence of various catalysts. Depending on the temperature and the types of catalyst used, the reaction will produce a crude mixture of semi-finished product or resin. Delta can customize the qualities and characteristics of the UPR by varying the temperature, ratio and types of chemical reactants or catalysts, which will result in the production of polyesters of different structures.

***Step 2: Dilution and Further Proccession***

The semi-finished product or resin is transported into the Dilution Tank where Styrene and other chemicals are added in a dilution process. The Dilution Tank is linked to a cooling and condensation mechanism which will condense the vapours or exhaust from the Dilution Tank. In the Dilution Tank, the resin can be further adjusted as to viscosity, reactivity and other characteristics through the addition of chemical inhibitors or promoters.

***Step 3: Packaging***

The final product is then transferred to the storage tanks or sent for packaging.

**(c) MA**

MA accounts for 6% of Delta's total sales volume. Most of the MA produced, i.e. approximately 60%, is used for its own production of UPR, while about 40% will be sold to customers. The oxidation process in the production of MA produces heat which is converted into steam for use in the production of PCT/ OCT and other production areas where steam is needed.

***Step 1: Oxidation***

Benzene and air are catalysed and oxidised through a fixed bed Oxidation Reactor to generate MA vapour. The MA vapour is condensed and cooled to form MA in liquid form which is delivered to the Crude Anhydride Tank. The vapour is passed through the Absorption Tower for further extraction and isolation.

***Step 2: Distillation***

The MA solution and vapour which has been absorbed in the absorption tower shall be dissolved and distilled as part of the purification process to extract the finished product. The MA can be delivered to the storage tanks and packaged for sale, or be utilised for further production and processing.

### **Delivery or Pick-up by the Customers**

Delta delivers around 60% of the products sold to the customer sites while customers pick up about 40% of the finished products directly from its warehouses. Delta usually uses three transportation companies to truck the products to its customer sites. The newly incorporated Jiangsu Logistics will be responsible for transporting the chemicals. Delivery typically takes up to one week, although actual time will vary depending on the location of its customers.

### **Production Facilities, Capacity and Utilization**

Delta's production facilities are located in Zhenjiang City, Jiangsu Province, the PRC.

Delta has three main production lines centered on its core products:

(a) Delta's 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.

Delta's MA production line was designed by the China Academy of Science started operation in late 2010. The (b)current capacity of the MA Production line is at 12,500 tonnes per annum, which is fully utilized and went through an expansion during 2013.

(c)Delta's UPR production line had two phases of development in May and December 2010 respectively.

Delta may from time to time look into further expansion of its existing facilities to improve output capacity.

### **Quality Control**

Delta is committed to providing its customers with quality and reliable products. Through its corporate quality management system, Delta is committed to ensuring that the products it produces are of high quality and are able to meet the expectations of its customers.

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

### **Quality Assurance and Safety Processes**

Delta conducts quality checks on all the products manufactured and oversee the implementation of the quality controls at every stage of its production process in line with its 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, Delta has 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. Delta also takes into account customers' specifications and requirements and quality feedback from its previous customers to supplement its quality control standards.

For its system design, Delta ensures 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) its customers' requirements.

(b) *Quality control during procurement*

Direct materials are purchased only from pre-selected suppliers after evaluation and testing by its 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.

Delta's quality assurance department will conduct random sample inspection upon receipt of the raw materials. Raw materials that do not meet its 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 its 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 its 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 its quality control standards. Direct materials which fail to comply with these specifications will be rejected.

Delta continuously monitors its 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. Delta's 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*

Delta conducts overall inspections and testing on finished products before they are despatched to customers. Delta has implemented a strict sample-based testing system, which is carried out every batch of its 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 its customers. Delta also provides after sales servicing, and will attend to complaints, if any, regarding defects in the products or the services.

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



## **Certification and Awards**

In recognition of its quality assurance efforts, Delta was 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, Delta has not experienced any material claims from its customers for defective or poor quality products, nor has Delta experienced any product liability claims from end users of its products. In addition, Delta has not experienced significant amount of return cases for its products over the same period.

## **Research and Development**

Delta places great emphasis on research and development. Its research and development team is headed by its Chief Engineer Mr. Yuan Huaizhou and supported by about 36 research and development staff. Delta's research team members are required to have at least five (5) 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 its 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 its products or technologies involved in its production process to its competitors for at least three (3) years after termination of their employment.

***In-house Research and development activities***

Delta's in-house research and development activities focus mainly on:

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

improving production techniques to cut down on production lead-time for efficiency and adopting automatic  
(b) 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***

Delta collaborates with technology partners, comprising renowned universities and in the manner as follows:

In 2012, Delta entered into discussions for partnership arrangements with a group of professors from East China Normal University to develop a joint research and development centre. The joint research centre, under the name of "Delta Chemical Advanced Materials R&D Centre", will be located in our new 12-storey office building which was completed in April 2014.

Pursuant to the collaborative arrangement, the university and Delta will each contribute around three (3) to five (5) research staff to carry out the research and development operations of the joint research centre.

The joint research centre will be 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 UPR products for (i) renovation of kitchen, bathroom and man-made marble counter, and (ii) manufacturing high pressure oil pipeline and high voltage electrical equipment;
- (b) new PCT/OCT downstream products, such as pharmaceutical bulk drug; and
- (c) directional catalyst to be used in PCT/OCT production process.

## **Sales and Marketing**

Delta's sales and marketing department is headed by its Deputy General Manager, Mr Shi Weiping, who has been involved in the chemical industry since 1989 and has experience of approximately 23 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 different product categories such as PCT/OCT and MA products 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.

Delta's sales and marketing department is responsible for the sales and marketing functions of its Group, 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.

Delta's sales personnel keep in touch with its 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, its sales personnel will report to Mr Shi on a daily basis.

Delta's sales and marketing department is also tasked with formulating and planning its 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, Delta is able to promote its products, obtain feedback on its products, and understand its customers' demands based on the latest developments and trends relating to its chemical industry. In addition, Delta may engage in discussions with its customers relating to new chemical products in the market and to explore opportunities for business collaboration. This will allow it to better understand and serve its customers.

Further, Delta 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. Delta provides its sales and marketing employees with necessary training to familiarize them with the sales and marketing practice in the industry and how to promote awareness for its brand. These employees are also rewarded with incentive remuneration package linked to their sales performance.

### ***Advertisements, Publications and Participation in Industrial Conferences***

Delta has a diversified customer base with more than 380 customers in China and countries such as India, Brazil, Japan, European Union member countries and America. Due to its diversified clientele, its sales and marketing efforts are conducted through a variety of channels, including but not limited to websites, billboards and brochures. Delta also participated in various regional and international seminars and exhibitions to showcase and promote its products, create and enhance market awareness of its 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. Delta has annually, since its 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 its products and services, Delta has been conferred, *inter alia*, the following awards or certificates:

<b>Award/ Certification</b>	<b>Awarding Authority</b>	<b>Year</b>
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 Environmental Management System Certificate	Hua Xia Certification Centre Inc.	2012
Production Safety Standards: Level Three Enterprise	Administration of Work Safety of Zhenjiang City, Jiangsu Province	2013

**Intellectual Property*****Patents***

As at the Latest Practicable Date, the status of Delta's patents and the patent applications in the PRC is as follows:

**Patents Granted**

<b>Patent Number</b>	<b>Description</b>	<b>Patentee</b>	<b>Date of Application</b>	<b>Date of Grant</b>	<b>Expiry Date</b>
ZL2011 2 0123193.1	Efficient resin heater for the purposes of improving UPR production process	Jiangsu Delta	April 18, 2011	November 16, 2011	April 18, 2021
ZL2011 2 0123195.0	Recovery hot and cold container in one for the purposes of improving UPR production process	Jiangsu Delta	April 18, 2011	November 30, 2011	April 18, 2021
ZL2011 2 0316710.7	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, 2013	February 28, 2024

**Patents Pending**

<b>No.</b>	<b>Application Number</b>	<b>Description</b>	<b>Patent Applicant</b>	<b>Application Date</b>	<b>Status</b>
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

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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 process	Jiangsu Delta	December 14, 2012	Pending

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No.	Application Number	Description	Patent Applicant	Application Date	Status
5	201210558267.3	Chlorobenzyl chloride continuous distillation system in relation to OCT production process	Jiangsu Delta	December 20, 2012	Pending
6	201420292343.5	A kind of maleic anhydride anhydride crude anhydride tank	Jiangsu Delta	June 3, 2014	Pending
7	201420091625.9	A kind of exhaust gas absorber that absorbs toluene chlorination		February 28, 2014	Pending

### Trademarks

As of the date of this report, Delta does not own any registered trademark. However, Delta has filed applications to the PRC Trademark Bureau in respect of the following trademarks:

Trademark	Class (1)	Application Number	Date of Application	Status	Place of Registration
	1	12218845	March 5, 2013	Pending	The PRC
	1	12218774	March 5, 2013	Pending	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

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

### Staff Training



Delta recognises that its employees are an important resource and it thus aim to equip its staff with the relevant skills and knowledge which will enable them to perform their jobs effectively. Delta has implemented comprehensive training policies and programmes aimed specifically at improving the skill sets of its staff and increasing its competitiveness and productivity. Delta's human resource department oversees its staff training programmes.

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

(a) General Training

Delta conducts orientation programs for its new employees during which they are provided with information on it, including its history, enterprise culture, business concept and employment rules. They are required to undergo operational training sessions so as to familiarise themselves with its operational procedures, policies and practices.

Occasionally, Delta 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

Delta's staff involved in the manufacturing and production processes are required to undergo in-house operational training sessions so as to familiarize themselves with its operational procedures, policies and practices. The production managers and engineers at its production facility periodically update and educate its production staff on matters relating to its 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, Delta's 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

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

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

## **Insurance**

Delta has in place the following insurance policies:

### **(a) Social Insurance**

Delta has 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 Delta 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 with the effective labor period of 5 years. Jiangsu Delta has passed the annual inspection of 2011.

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 its best knowledge, each of Jiangsu Delta and Jiangsu Zhengxin R&D 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 neither company has any overdue payment and had been in compliance with applicable PRC social insurance laws and regulations as of the date of this report.

#### **(b) Property Insurance**

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

#### **(c) Motor Vehicle Insurance**

Delta purchases and maintains compulsory traffic accident liability insurance for all company-owned motor vehicles.

#### **(d) Insurance for employers' liability.**

Delta also purchases 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 Delta's 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 85% of its total cost of sales.

Delta's suppliers are carefully selected by its purchasing department, and are assessed on criteria such as the geographical location, quality of materials supplied, length of business relationship with it, as well as their reputation, pricing, reliability, track record, service, punctuality and response time. To facilitate timely purchases of materials, Delta keeps 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 its management on an annual basis.

Delta's raw materials are currently sourced from within the PRC and therefore, all of its purchases are transacted in RMB. Accordingly, Delta is not subjected to any significant risk in exchange rates fluctuation in the purchase of raw materials.

Except for Chemical Sales Eastern China Branch of China Petroleum & Chemical Corporation, with whom a one year contract was entered into, Delta does not any have long-term arrangements with its other major suppliers.

The major suppliers accounting for 5% or more of Delta's cost of sales for each the last three fiscal years ended June 30, 2012, 2013 and 2014 are as follows:

Suppliers	FY2014		FY2013		FY2012	
Jiangsu Huihong International Group	13	%	0	%	0	%
Emori (China) Trading Limited	11	%	6	%	0	%
Jiangsu Changhai Chemical Limited	10	%	8	%	0	%
Southern Petrochemical Group	8	%	20	%	7	%
Nantong Chemical and Light Industry Co., Ltd.	5	%	9	%	11	%

Most of materials are mass chemical products, prices of which are quite transparent. However, due to limited purchase volume, Delta is not able to buy products directly through major international chemical suppliers, such as SK Chemicals. Except for Sinopec, Delta procures its materials through chemical wholesalers, such as Southern Petrochemical Group. Delta may switch its 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 it during recent years. The percentage of purchase is also varied from year to year.

Delta's business or profitability is not materially dependent on any single supplier. Delta does not consider ourselves materially dependent on any single abovementioned supplier as Delta believes that there are other qualified suppliers that it is able to work with should any of these suppliers provide unacceptable or uncompetitive terms.

As of the date of this report, Delta is not aware of any information or arrangement which would lead to a cessation or termination of its relationships with any of its current major suppliers.

### Major Customers

Delta's customers are mainly from the chemical industry in the PRC. As of the date of this report, Delta has a customer base of approximately 380 different customers (of which certain customers belong to the same group of companies) across 11 provinces in the PRC.

The major customers accounting for 5% or more of Delta's total revenue for the last three fiscal years ended June 30, 2012, 2013, 2014 are as follows:

Customer	Type of Products	FY2014		FY2013		FY2012	
Nantong Chemical and Light Industry Co., Ltd.	Materials	9	%	0	%	0	%
	Materials	6	%	1	%	0	%

Southern Petrochemical Group, Jiangsu Branch Company						
Shanghai Haohanshenying International Trading Limited	Materials	5	%	0	%	0
Jiangsu Huiteng Chemical Co., Ltd.	PCT, OCT and 2,4-Dichlorotoluene	5	%	8	%	11

Except materials sales' customers, Delta's customer base is diversified. For the past three fiscal years, Delta has generally reduced its reliance on each of its major customers, whose purchases as a percentage of its 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 Delta produces.

As at the date of this report, Delta does not have any long-term arrangement or arrangements with any of its major customers and its business or profitability is not materially dependent on any single customer. As of the date of this report, Delta is not aware of any information or arrangement which would lead to a cessation or termination of its relationships with any of its 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, Delta operates in a competitive environment. Delta's competitors are located in the Yangtze River Delta region of China, especially in the Jiangsu Province where Delta is located.

Management of Delta believes that the demand for its products is increasing, both within and outside the PRC. Management of Delta considers, amongst others, the following to be its main competitors as Delta competes with them in at least one of the categories of the products sold by it:

<b>Name</b>	<b>Place of Origin</b>
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
Changzhou Yabang Chemical Co., Ltd.	Changzhou City, Jiangsu Province

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

### **Environmental Protection and Corporate Social Responsibilities**

Delta has always been committed to adopting an environmentally friendly business model.

Delta has obtained all of the environmental permits and approvals necessary to conduct its business, including those for its production facilities, such as Dangerous Chemical Operation Permit, Pollutant Discharge Permit, etc. In addition, Delta was 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, Delta has gone a step further in order to minimize its impact on the environment by undertaking a wide range of self-initiated measures to build a greener future.

Delta's manufacturing processes generate noise, waste water, gaseous wastes and other industrial wastes. However, Delta has devoted efforts to reduce such wastes to acceptable levels under applicable regulations. Delta has installed various types of anti-pollution equipment in its facilities to reduce, treat, and where feasible, recycle the waste



generated in its manufacturing process. Delta's operations are subject to regulation and periodic monitoring by local environmental protection authorities. Delta is currently in compliance with all applicable environmental laws and have not breached any applicable environmental laws or regulations since its establishment.

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

As a testimony to its continued efforts to achieve zero-pollution, Delta 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 its production process to attain the goal of zero waste generation.

In order to ensure that Delta comply with the relevant PRC environmental laws and regulations, Delta has appointed specialized personnel to oversee environmental protection related matters within the Company. As a responsible corporate entity, Delta has committed to ensure that Delta complies 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 its 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 its 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 Delta's Business***

Generally, the fine chemical industry is subject to stringent environmental protection, health and safety laws and regulation in the PRC. Delta has identified the main laws and regulations that affect its 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 9 April 1991 and amended on 28 October 2007, and 31 August 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 recognised 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 recognised 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 recognised 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 recognised 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 recognise 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 centres with the prior examination and verification by SAFE. The exchange rates used by swap centres 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:

- (a) 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 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.
- (c) FIEs may have their own foreign currency accounts and are also permitted to retain their recurrent exchange earnings according to their needs of operation and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks.
- (d) Reservation or sale of capital account foreign exchange earnings to designated banks shall be approved by the 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.
- (e) 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 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 utilisation 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.



(f) FIEs which require foreign exchange for their ordinary trading activities such as trade services and payment of 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.

(g) 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 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-characterise 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 licence 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 instalments 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 capitalisation 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 Labour 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 authorised 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 licences 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, Delta is 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 its business operations. Changes in the PRC governmental rules and regulations will have a significant impact on its business, and Foreign exchange control and tax policies in the PRC may limit its ability to utilize its revenue effectively and affect its ability to receive dividends and other payments from its subsidiary 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, Delta has obtained all material licenses, permits and approvals from the relevant government authorities for its 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 Delta received as of the date of this report:

<b>Entity</b>	<b>Licenses, Permits and Certificates</b>	<b>Serial Number</b>	<b>Valid Term/ Renewal Period</b>	<b>Authority</b>
Jiangsu Delta	Registration Certificate for Using Hazardous Chemicals	321110234	June 23, 2014 to June 22, 2017	Jiangsu Province Administration of Work Safety Chemical Registration Centre
Jiangsu Delta	Trading Licence for Hazardous Chemicals	Su Zhen An Jing (Yi) Zi 2012001347	January 5, 2012 to January 4, 2015	Administration of Work Safety of Zhenjiang City
Jiangsu Delta	Record Keeping Certificate of Non-Pharmaceutical Precursor Chemical Production	(Su) 3S32111200031	May 23, 2014 to April 27, 2017	Administration of Work Safety of Zhenjiang City
Jiangsu Delta	Record Keeping Certificate of Class 2 and Class 3 Precursor Chemical Purchase	[2014] Certificate No. 102888	To November 28, 2014	Police Station of Jiangsu Zhenjiang, Dantu Bureau
Jiangsu Delta	Approval of Purchasing Highly Toxic Chemical	(Zhenjiang) Gong Ju Zhun Guo Zi [2014] No. 01962	One-time approval and valid for 15 days.	Zhenjiang Police Station
Jiangsu Delta	Pollutant Discharge Permit	Zhen Tu Huan No. 3211212012062	20 October 2012 to October 19, 2015	Environment Protection Agency of Dantu District, Zhenjiang City
Jiangsu Delta	Business License	321100400012550	June 15, 2007 to June 14, 2027	Administration of Industry and Commerce of Zhenjiang, Jiangsu Province

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Jiangsu Delta	Work Safety License	(Su) WH An Xu Zheng Zi [L00230]	April 28, 2014 to April 27, 2017	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

Entity	Licenses, Permits and Certificates	Serial Number	Valid Term/ Renewal Period	Authority
Jiangsu Delta	Organization Code Certificate	No.66274328-4	June 15, 2011 to June 14, 2015	Jiangsu Zhenjiang Administration of Quality Supervision, Inspection and Quarantine
Jiangsu Delta	Tax Registration Certificate	Zhen Guo Shui Tu Deng Zi 321121662743284	N.A. <i>(Note: issued on 19 January 2009)</i>	National Tax Bureau of Zhenjiang, Jiangsu Province and Local Tax Bureau of Dantu, Zhenjiang
Jiangsu Delta	Tax Registration Certificate	Su Di Shui Zi No.321181796133836	N.A. <i>(Note: issued on 19 January 2009)</i>	National Tax Bureau of Danyang, Jiangsu Province and Local Tax Bureau of Danyang
Jiangsu Delta	Approval Certificate for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the PRC	Shang Wai Zi Su Fu Zi [2007] NO.73674	N.A. <i>(Note: issued on 6 June 2014)</i>	People's Government of Jiangsu Province
Jiangsu Delta	Foreign Exchange Registration Card	No.00085568	[N.A.] N.A.	State Foreign Exchange Administration
Jiangsu Delta	Bank Account Permit	No. J3140002471102	N.A. <i>(Note: issued on July 16, 2008)</i>	People's Bank of China, Zhenjiang Branch
Jiangsu Delta	Social Insurance Registration Certificate	She Xian Su Zi No.32112115000942	June 23, 2010 to June 22, 2015	Social Labour Insurance Fund Management Centre, Dantu District, Zhenjiang City
Jiangsu Delta	Environmental Management System Certificate	N.A.	July 6, 2012 to July 5, 2015	China Certification Centre Inc.
Jiangsu Zhengxin R&D	Business License	321181400006540	April 20, 2010 to April 19, 2061	Administration of Industry and Commerce of Dayang, Zhenjiang Zhenjiang Danyang
Jiangsu Zhengxin R&D	Organization Code Certificate	No.57261313-6	September 24, 2012 to September 23, 2016	Administration of Quality Supervision, Inspection and Quarantine
Jiangsu Zhengxin R&D	Tax Registration Certificate	Zhen Guo Shui Dan Deng Zi 321181572613136 No.321181572613136	N.A. <i>(Note: issued on December 7, 2012)</i>	State Tax Bureau of Danyang, Jiangsu Province and Local Tax Bureau of Danyang, Jiangsu Province

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Jiangsu Zhengxin R&D	Financial Registration Certificate for Foreign-invested Enterprises		April 20, 2011 to April 18, 2061	Local Financial Bureau of Danyang City
			N.A.	
Jiangsu Zhengxin R&D	Bank Account Permit	No. J3141002596303	(Note: issued on December 25, 2012)	People's Bank of China, Dayang Branch
			N.A.	
Jiangsu Zhengxin R&D	Certificate of Statistic Registration	Dan Tong Deng Zi No. 32118120112278	(Note: issued on December 19, 2012)	Danyang Statistic Bureau
Jiangsu Logistic	Business License	321121000087016	December 17, 2013 to Long	Administration of Industry and Commerce of Dantu, Zhenjiang
Jiangsu Logistic	Road transportation operation Certificate	Su Jiao Yun Guan Xu Ke Zhen Zi No. 321112303680	May 21, 2014 to December 11, 2017	Administration of Transportation and Management Zhenjiang Dantu
Jiangsu Logistic	Organization Code Certificate	No. 08692663-9	December 17, 2013 to December 16, 2017	Administration of Quality Supervision, Inspection and Quarantine
Jiangsu Logistic	Tax Registration Certificate	Zhen Guo Shui Deng Zi 321121086926639	N.A. (Note: issued on June 12, 2014)	State Tax Bureau of Dantu, Zhenjiang city, Jiangsu Province and Local Tax Bureau of Dan, Zhenjiang city

Entity	Licenses, Permits and Certificates	Serial Number	Valid Term/ Renewal Period	Authority
Binhai Deda	Business license	320922000222858	June 8, 2013 to June 7, 2043	Administration of Industry and Commerce of Binhai, Yanhai
Binhai Deda	Trading Licence for Hazardous Chemicals	Su (Yan) An Jing Zi (Bin) 000011	June 7, 2013 to June 6, 2016 N.A.	Administration of Work Safety of Binhai
Binhai Deda	Bank Account Permit	No. J3112001078201	<i>(Note: issued on June 19, 2013)</i>	People's Bank of China, Binhai Branch
Binhai Deda	Organization Code Certificate	No. 07101823-2	June 8, 2013 to June 7, 2017	Yancheng Binhai Administration of Quality Supervision, Inspection and Quarantine

## Properties

Delta currently owns 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 <sup>(1)</sup>	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 <sup>(2)</sup>	August 1, 2011 to August 31, 2060	26,023	Industrial
Jiangsu Zhengxin R&D	North of Development Zone Road, South of Hu Ning Expressway	Dan Guo Yong (2013) No. 00598 <sup>(3)</sup>	January 16, 2013 to January 7, 2053	9,934.5	Commercial

## Notes:

(1) This land use right has been mortgaged to the Industrial and Commercial Bank of China, Zhenjiang Branch. The period of the mortgage is two years commencing from November 24, 2008 and ending on December 31, 2010. During the term of the mortgage, 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. Jiangsu Delta has duly paid off the loan in



time.

(2) The land use right has been mortgaged to the Construction Bank of China, Zhenjiang Branch. The period of the mortgage is three years commencing from April 16, 2012 and ending on April 16, 2015. During the term of the mortgage, its 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.

(3) There are no mortgages or outstanding encumbrances on the land use right.

Delta currently owns and possesses the Building Ownership Certificates for the following buildings in the PRC:

<b>Location</b>	<b>Certificate of Real Estate Ownership No.</b>	<b>Approximate Gross Floor Area (sq m)</b>	<b>Use of Property</b>
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 period of the mortgage is one year commencing from June 20, 2014 and ending on June 19, 2015. During the term of the mortgage, Delta's 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, Delta does not lease any properties.

Delta believes there are no regulatory requirements or environmental issues that may materially affect its 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. A.- Information on the Company.”

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not required.

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## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF DELTA**

#### **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**

Delta is 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, unsaturated polyester resin ("UPR"), maleic acid ("MA") and other by-product chemicals.

Delta collaborates with reputable universities, such as the East China Normal University in order to secure its position as a market leader. Delta also closely monitors 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, Delta has a diversified clientele with more than 380 customers based either in domestic or overseas market. Approximately 90% of its sales are to its 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 agents or trading companies to countries outside the PRC which include but not limited to India, Brazil, Japan, European Union member countries and America.

This discussion and analysis focuses on the business results, comparing results of operations for the fiscal year ended June 30, 2014, 2013 and 2012, respectively.

### **The fiscal year ended June 30, 2013 and June 30, 2012**

#### **Results of Operations**

In the fiscal year ended June 30, 2013, Delta's revenue and net income had an increase as compared with the fiscal year ended June 30, 2012.

The following table summarizes the results of Delta's operations during the fiscal year ended June 30, 2013 and 2012, respectively, and provides information regarding the dollar and percentage increase (or decrease) from the fiscal year ended June 30, 2013 and 2012.

	The Fiscal Year Ended June 30,					
	2013		2012		Change	Change rate
Revenue	\$ 124,218,213		\$ 95,627,051		\$ 28,591,162	29.90 %
Cost of Sales	\$ 99,733,216		\$ 69,686,610		\$ 30,046,606	43.12 %
Gross Profit	\$ 24,484,997		\$ 25,940,441		\$ (1,455,444 )	(5.61 )%
Gross Margin	19.71	%	27.13	%	-	(7.42 )%
Operating Expenses	\$ 6,642,383		\$ 6,852,066		\$ (209,683 )	(3.06 )%
Operating Income	\$ 17,842,614		\$ 19,088,375		\$ (1,245,761 )	(6.53 )%
Operating Margin	14.36	%	19.96	%	-	(5.60 )%
Change in fair value of convertible bonds	\$ (37,000 )		\$ (2,440,283 )		\$ 2,403,283	(98.48 )%
Net Income	\$ 11,705,736		\$ 10,471,574		\$ 1,234,162	11.79 %
Net Profit Margin	9.42	%	10.95	%	-	1.53 %

## Revenue

Revenue for the fiscal year ended June 30, 2013, was \$124,218,213, an increase of 29.90% as compared with revenues of \$95,627,051 for the fiscal year ended June 30, 2012. In the fiscal year ended June 30, 2013, we sold 21,486 tons of unsaturated polyester resin (“UPR”), an increase of 8.82% as compared with 19,745 tons of UPR in the fiscal year ended June 30, 2012. In the fiscal year ended June 30, 2013, we sold 37,501 tons of p(o)-chlorotoluene (“PCT/OCT”), an increase of 4.34% as compared with 35,941 tons in the fiscal year ended June 30, 2012. The increase was due primarily to a rise in demand. We launched Supply Chain Management (“SCM”) business in the fiscal year ended June 30, 2012.

The following table is a breakdown of the revenue based on different segments/products.

	The Fiscal Year Ended June 30,					
	2013		2012			
	sales	% of total sales	sales	% of total sales		
UPR	40,428,366	32.55	% 33,800,939	35.35	%	
PCT/OCT	72,398,974	58.28	% 61,690,363	64.51	%	
Delta SCM	11,390,873	9.17	% 135,749	0.14	%	
Total net revenue	\$ 124,218,213	100.00	% \$ 95,627,051	100.00	%	

## Gross Profit

Gross profit decreased by 5.61% to \$24,484,997 for the fiscal year ended June 30, 2013, as compared with \$25,940,441 for the fiscal year ended June 30, 2012. The gross margin decreased by 7.42% from 27.13% for the fiscal year ended June 30, 2012 to 19.71% for the same period of 2013, mainly due to the loss from sales in the SCM.

The table below presents information about our gross profit for the periods indicated:

	The Fiscal Year Ended June 30,			
	2013		2012	
	US\$	Gross margin	US\$	Gross margin
Gross Profit	\$24,484,997	19.71 %	25,940,441	27.13 %

## Operating Income

Operating income was \$17,842,614 for the fiscal year ended June 30, 2013, representing a 6.53% decrease as compared with \$19,088,375 for the fiscal year ended June 30, 2012. The operating margin decreased by 5.60% from 19.96% for the fiscal year ended June 30, 2012 to 14.36% for the fiscal year ended June 30, 2013. In particular, the SCM gross loss margin was 5.53% for the fiscal year ended June 30, 2013. The decrease in operating margin mainly was due to a sale volume increase of 8,183% in the SCM for the fiscal year ended June 30, 2013 as compared with the fiscal year ended June 30, 2012.

## Cost of Sales

Cost of sales was \$99,733,216 for the fiscal year ended June 30, 2013, representing a 43.12% increase as compared with \$69,686,610 for the same period of 2012. The increase in cost of sales was due to sales growth.

The table below presents information about our cost of sales for the periods indicated:

	The Fiscal Year Ended June 30,		
	2013	2012	Change
Cost of sales	\$ 99,733,216	\$ 69,686,610	43.12 %

## Operating Expenses

Operating expenses were \$6,642,383 for the fiscal year ended June 30, 2013, representing a 3.06% decrease as compared with \$6,852,066 for the fiscal year ended June 30, 2012. The decreased was primarily due to two factors: (i) a decrease in selling expenses of 2.79% to \$2,374,609 for the fiscal year ended June 30, 2013 from \$2,442,753 for the fiscal year ended June 30, 2012 because of reduced sales promotional efforts while market demand was naturally strong, and (ii) a decrease in general and administration expenses of 3.21% to \$4,267,774 for the fiscal year ended June 30, 2013 from \$4,409,313 for the fiscal year ended June 30, 2012, mainly due to the decrease in entertainment expenses to \$195,314 for the fiscal year ended June 30, 2013 from \$338,560 for the fiscal year ended June 30, 2012.

The table below presents information about our operating expenses for the periods indicated:



	The Fiscal Year Ended June 30,		
	2013	2012	Change
Selling expenses	\$ 2,374,609	\$ 2,442,753	(2.79 )%
General & Administrative expenses	\$ 4,267,774	\$ 4,409,313	(3.21 )%
Total operating expenses	\$ 6,642,383	\$ 6,852,066	(3.06 )%

### Change in fair value of convertible bonds

Change in fair value of convertible bonds was \$37,000 for the fiscal year ended June 30, 2013. This is recorded as a non-cash loss, which resulted from the change in fair value of convertible bonds issued pursuant to a series of securities purchase agreements dated January 31, 2011, May 16, 2011 and June 30, 2011 with certain investment funds, pursuant to which Delta has issued certain bonds for an aggregate principal amount of \$18,000,000.

### Net Income

Net income was \$11,705,736 for the fiscal year ended June 30, 2013, an increase of 11.79% as compared with \$10,471,574 for the fiscal year ended June 30, 2012. The increase in net income for the fiscal year ended June 30, 2013 was mainly due to increase in revenue and decrease in operating expenses as compared with the fiscal year ended June 30, 2012.

The net profit margin decreased by 1.53% from 10.95% for the fiscal year ended June 30, 2012 to 9.42% for the fiscal year ended June 30, 2013. In particular, the SCM segment had a gross loss margin of 5.79% for the fiscal year ended June 30, 2013 which partially offset the other products' gross margin.

## Earnings per Share

Basic and diluted loss per share for the fiscal year ended June 30, 2013 were \$0.29 and \$0.20 compared with loss per share of \$0.26 and \$0.22 for the same period of 2012. The weighted average number of shares outstanding to calculate basic earnings per share (“EPS”) was 40,000,000 and 40,000,000 for the fiscal year ended June 30, 2013 and 2012, respectively. The weighted average number of shares outstanding to calculate diluted EPS was 58,191,973 and 58,191,973 for the fiscal year ended June 30, 2013 and 2012.

## Liquidity and Capital Resources

We have historically financed our operations and capital expenditures principally through private placements of 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,		
	2013	2012	Change
Net cash provided by (used in) operating activities	\$(23,824,136 )	\$15,146,795	(257.29 )%
Net cash provided by (used in) investing activities	\$(20,535,030 )	\$(12,592,504 )	63.07 %
Net cash provided by (used in) financing activities	\$41,358,173	\$(2,209,912 )	(1,971.49)%
Effect of foreign currency translation on cash and cash equivalents	\$(107,099 )	\$151,778	(170.56 )%
Beginning cash and cash equivalent	\$7,054,228	\$6,558,071	(7.57 )%
Ending cash and cash equivalent	\$3,946,136	\$7,054,228	(44.06 )%

## Operating Activities

For the fiscal year ended June 30, 2013, net cash used in operating activities was \$23,824,136. This was primarily attributable to our net income of \$11,705,736, adjusted by an add-back of non-cash charges mainly consisting of depreciation, amortization, change in fair value of convertible bonds, written off of goodwill and allowance for doubtful accounts of \$4,055,295, \$39,927, \$37,000, \$71,638 and \$411,211, respectively, and non-cash gain from deferred income taxes accounts of \$94,179, offset by a \$40,050,764 decrease in working capital. Specifically, the decrease in working capital was primarily due to: (i) a \$20,408,647 trade and other receivables increase driven by customers payment; (ii) a \$3,953,649 increase in inventories, principally of finished goods; partially offset by a \$16,707,725 decrease in trade and other payables, a \$947,128 increase advance from customers deposit, and a \$72,129 increase in income tax payables.

### **Investing Activities**

For the fiscal year ended June 30, 2013, net cash used in investing activities was \$20,535,030. This was primarily attributable to: (i) a \$17,225,856 capital expenditure for purchase of new plant and equipment, (ii) a \$2,784,957 capital expenditure for purchase of new land use rights, and a \$524,217 capital expenditure for purchase of a new company, Jiangsu Zhengxin New Material Research and Development Co., Ltd.

### **Financing Activities**

For the fiscal year ended June 30, 2013, net cash provided by financing activities were \$41,358,173, primarily attributable to: (i) a \$74,017,122 short-term bank loan borrowing, (ii) a \$49,884,676 repayment of bank borrowings, and a \$17,225,727 change in restricted cash.

**The fiscal year ended June 30, 2014 and June 30, 2013****Results of Operations**

In the fiscal year ended June 30, 2014, revenue and net income had an increase as compared with the fiscal year ended June 30, 2013. Delta's net profit margin was driven down by 5.53% by the rapid growth of sale in the SCM which has the lowest margin among the products for the fiscal year ended June 30, 2014.

The following table summarizes the results of our operations during the fiscal year ended June 30, 2014 and 2013, respectively, and provides information regarding the dollar and percentage increase (or decrease) from the fiscal year ended June 30, 2014 and 2013.

	The Fiscal Year Ended June 30,		Change	Change rate	
	2014	2013			
Net Revenue	\$ 175,327,717	\$ 124,218,213	\$ 51,109,504	41.14	%
Cost of Sales	\$ 157,904,729	\$ 99,733,216	\$ 58,171,513	58.33	%
Gross Profit	\$ 17,422,988	\$ 24,484,997	\$ (7,062,009 )	(28.84	)%
Gross Margin	9.94	% 19.71	% -	(9.77	)%
Operating Expenses	\$ 5,788,048	\$ 6,642,383	\$ (854,335 )	(12.86	)%
Operating Income	\$ 11,634,940	\$ 17,842,614	\$ (6,207,674 )	(34.79	)%
Operating Margin	6.64	% 14.36	% -	(7.73	)%
Change in fair value of convertible bonds	\$ (156,199 )	\$ (37,000 )	\$ (119,199 )	322.16	%
Net Income	\$ 6,828,308	\$ 11,705,736	(4,877,428 )	(40.65	)%
Net Profit Margin	3.89	% 9.42	% -	5.53	%

**Revenue**

Revenue for the fiscal year ended June 30, 2014 was \$175,327,717, an increase of 41.14% as compared with revenue of \$124,218,213 for the fiscal year ended June 30, 2013. In the fiscal year ended June 30, 2014, we sold 30,014 tons of UPR, an increase of 39.69% as compared with 21,486 tons of UPR in the fiscal year ended June 30, 2013. In the fiscal year ended June 30, 2014, we sold 38,285 tons of PCT/OCT, an increase of 2.09% as compared with 37,501 tons in the fiscal year ended June 30, 2013. The increase was due primarily to increased demand in our products that is satisfied by outsourcing. In the fiscal year ended June 30, 2014, Delta sold 39,736 tons of chemicals in the SCM segment, an increase of 385.99% as compared with 8,176 tons in the fiscal year ended June 30, 2013. The increase in the sales in SCM segment was due primarily to the adjustment in operating strategy to enter the logistics business.

The following table breaks down application categories as percentage of total net revenue:

	The Fiscal Year Ended June 30,					
	2014		2013			
	sales	% of total sales	sales	% of total sales		
UPR	56,230,919	32.07	% 40,428,366	32.55	%	
PCT/OCT	67,634,632	38.58	% 72,398,974	58.28	%	
SCM	51,462,166	29.35	% 11,390,873	9.17	%	
Total revenue	\$175,327,717	100.00	% \$124,218,213	100.00	%	

**Gross Profit**

Gross profit decreased 28.84% to \$17,422,988 for the fiscal year ended June 30, 2014, as compared with \$24,484,997 for the fiscal year ended June 30, 2013. The gross margin decreased by 9.77% from 19.71% for the fiscal year ended June 30, 2013 to 9.94% for the same period of 2014, mainly because the SCM had a gross loss margin of 1.17% in the fiscal year ended June 30, 2014.

The table below presents information about our gross profit for the periods indicated:

	The Fiscal Year Ended June 30,				
	2014		2013		
	US\$	Gross profit margin	US\$	Gross profit margin	
Gross Profit	\$17,422,988	9.94	% 24,484,997	19.71	%

**Operating Income**

Operating income was \$11,634,940 for the fiscal year ended June 30, 2014, representing a 34.79% decrease as compared with \$17,842,614 for the fiscal year ended June 30, 2013. The operating margin decreased by 7.73% from 14.36% for the fiscal year ended June 30, 2013 to 6.64% for the fiscal year ended June 30, 2014. The decrease in gross margin mainly due to a sale volume increase of 321.58% in SCM which had a gross loss margin of 5.79% for the fiscal year ended June 30, 2014 as compared with the fiscal year ended June 30, 2013.

**Cost of Sales**

Cost of sales was \$157,904,729 for the fiscal year ended June 30, 2014, representing a 58.33% increase as compared with \$99,733,216 for the same period of 2013. The increase in cost of sales was due to sales growth.

The table below presents information about our cost of sales for the periods indicated:

The Fiscal Year Ended June 30,

	2014	2013	Change
Cost of sales	\$ 157,904,729	\$ 99,733,216	58.33 %

### Operating Expenses

Operating expenses were \$5,788,048 for the fiscal year ended June 30, 2014, representing a 12.86% decrease as compared with \$6,642,383 for the fiscal year ended June 30, 2013. The decrease was primarily due to two factors: (i) a decrease in selling expenses of 2.89% to \$2,306,021 for the fiscal year ended June 30, 2014 from \$2,374,609 for the fiscal year ended June 30, 2013 because of reduced sales promotional efforts while market demand was naturally strong, and (ii) a decrease in general and administration expenses of 18.41% to \$3,482,027 for the fiscal year ended June 30, 2014 from \$4,267,774 for the fiscal year ended June 30, 2013, mainly due to the decrease in entertainment expenses to \$147,897 for the fiscal year ended June 30, 2014 from \$195,341 for the fiscal year ended June 30, 2013.

The table below presents information about our operating expenses for the periods indicated:

	The Fiscal Year Ended June 30,		
	2014	2013	Change
Selling expenses	\$ 2,306,021	\$ 2,374,609	(2.89 )%
General & Administrative expenses	\$ 3,482,027	\$ 4,267,774	(18.41 )%
Total operating expenses	\$ 5,788,048	\$ 6,642,383	(12.86 )%

### **Change in fair value of convertible bonds**

Change in fair value of convertible bonds was \$156,199 for the fiscal year ended June 30, 2014. This is recorded as a non-cash loss, which resulted from the change in fair value of convertible bonds issued pursuant to a series of securities purchase agreements dated January 31, 2011, May 16, 2011 and June 30, 2011 with certain investment funds, pursuant to which Delta has issued certain bonds for an aggregate principal amount of \$18,000,000.

### **Net Income**

Net income was \$6,828,308 for the fiscal year ended June 30, 2014, a decrease of 40.52% as compared with \$11,705,736 for the fiscal year ended June 30, 2013. The decrease in net income in the fiscal year ended June 30, 2014 was mainly due to a substantial increase in cost of sales as compared with the fiscal year ended June 30, 2013.

The net profit margin down 5.53% from 9.42% for the fiscal year ended June 30, 2013 to 3.89% for the fiscal year ended June 30, 2014. Specifically, the UPR and PCT/OCT's gross profit margin offset by the raw material gross loss margin account of 5.79% for the fiscal year ended June 30, 2014. The decrease in gross margin mainly due to a sales increase of 321.58% in raw material for the fiscal year ended June 30, 2014 as compare with the fiscal year ended June 30, 2013.

### **Earnings per Share**

Basic and diluted loss per share for the fiscal year ended June 30, 2014 were \$0.17 and \$0.12 compared with loss per share \$0.29 and \$0.20 for the same period of 2013. The weighted average number of shares outstanding to calculate basic EPS was 40,000,000 and 40,000,000 for the fiscal year ended June 30, 2014 and 2013, respectively. The weighted average number of shares outstanding to calculate diluted EPS was 58,191,973 and 58,191,973 for the fiscal year ended June 30, 2014 and 2013.

### **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,		
	2014	2013	Change
Net cash provided by (used in) operating activities	\$3,865,600	\$(23,824,136 )	(116.21)%
Net cash provided by (used in) investing activities	\$(24,076,576 )	\$(20,535,030 )	17.25 %
Net cash provided by (used in) financing activities	\$25,303,850	\$41,358,173	(38.82 )%
Effect of foreign currency translation on cash and cash equivalents	\$6,941	\$(107,099 )	(106.48)%
Beginning cash and cash equivalent	\$3,946,135	\$7,054,228	(44.06 )%
Ending cash and cash equivalent	\$9,045,950	\$3,946,136	(129.24)%

### Operating Activities

For the fiscal year ended June 30, 2014, net cash provided by operating activities was \$3,865,600. This was primarily attributable to our net income of \$6,828,308, adjusted by an add-back of non-cash charges mainly consisting of depreciation, amortization, change in fair value of convertible bonds, deferred income taxes and allowance for doubtful accounts of \$4,816,403, \$41,600, \$156,199, \$822,200 and \$177,179, respectively, and non-cash gain from disposals of property accounts of \$113,953, offset by a \$88,623,336 decrease in working capital. Specifically, the decrease in working capital was primarily due to: (i) a \$16,343,386 trade and other receivables increase driven by customers payment; (ii) a \$191,049 increase in inventories, principally of raw material; partially offset by a \$8,428,337 increase in trade and other payables, a \$665,038 decrease advance from customers deposit, and a \$91,200 decrease in income tax payables.

### **Investing Activities**

For the fiscal year ended June 30, 2014, net cash used in investing activities was \$24,076,576. This was primarily attributable to: (i) a \$23,957,404 capital expenditure for purchase of new plant and equipment, (ii) a \$478,184 capital expenditure for purchase of new land use rights, and (iii) a \$359,012 gain for disposals of property and equipment.

### **Financing Activities**

For the fiscal year ended June 30, 2014, net cash provided by financing activities were \$25,303,850, primarily attributable to: (i) a \$129,232,006 short-term bank loan borrowing, (ii) a \$108,797,261 repayment of bank borrowings, (iii) a \$2,011,673 change in restricted cash, and (iv) a \$2,857,432 due to a shareholder.

### **Cash and Cash Equivalents**

Our cash and cash equivalents as at July 1, 2013, were \$3,946,135 and increased to \$9,045,950 by June 30, 2014. The increase was mainly due to increase in net cash provided by operating activities and financing 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 may, however, 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 \$53,318,673 as of June 30, 2014, representing a 4.05% increase as compared with \$51,242,793 as of June 30, 2013. This increase in trade receivables was primarily attributable to increase in sales.

### **Inventory**

Inventory consists of raw materials, finished goods. As of June 30, 2014, the recorded value of our inventory increased 1.88% to \$14,062,567 from \$13,803,489 as of June 30, 2013. This increase is mainly due to an increase of 34.44% in raw material from \$6,202,218 as of June 30, 2013 to \$8,338,302 as of June 30, 2014 partially offset by a decrease of 24.69% in finished goods from \$7,601,271 as of June 30, 2013 to \$5,724,265 as of June 30, 2014. The increase in raw material was primarily to meet the production demand.

The following table presents information about our inventory for the periods indicated:

	June 30,2014	June 30,2013	Change
Raw material	\$8,338,302	\$6,202,218	34.44 %
Finished goods	\$5,724,265	\$7,601,271	(24.69)%
Total inventory	\$14,062,567	\$13,803,489	1.88 %

### **Accounts payable**

Accounts payable were \$1,760,310 as of June 30, 2014, an increase of 2.46 % from \$1,718,125 as of June 30, 2013. The increase was primarily attributable to a larger purchase volume.

## **Obligations under Material Contracts**

There was no material contractual obligation as of June 30, 2014.

## **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 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, 2014, 2013 and 2012 were capitalized at a rate of 7.11%, 7.17% and 7.63% 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.

We did not have any off-balance sheet arrangements as of June 30, 2014.

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

### Forward Looking Statements

All statements other than statements of historical fact included in this Form 20-F including, without limitation, statements under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” regarding our financial position, business strategy and the plans and objectives of management for future operations, are forward looking statements. When used in this Form 20-F, words such as “anticipate,” “believe,” “estimate,” “expect,” “intend” and similar expressions, as they relate to us or our management, identify forward looking statements. Such forward looking statements are based on the beliefs of management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those contemplated by the forward looking statements as a result of the risk factors and other factors detailed in our filings with the Securities and Exchange Commission, including the risk factors set forth in Part I, Item 3, of our Form 20-F for the year ended October 31, 2013 filed with the SEC on March 17, 2014. All subsequent written or oral forward looking statements attributable to us or persons acting on our behalf are qualified in their entirety by this paragraph.

You should also read the following management discussion and analysis (“MD&A”) in conjunction with the unaudited financial statements and related footnotes thereto included in this report and in conjunction with the MD&A and the audited financial statements and related footnotes thereto included in our annual report on Form 20-F for the year ended October 31, 2013 filed with the SEC on March 17, 2014. All capitalized terms in this MD&A that are not defined shall have the meaning ascribed to them in the Notes to the Financial Statements included herewith.

## Overview

We were formed on November 28, 2011 under the laws of the British Virgin Islands as an innovated public acquisition company (“IPAC”). The Company was formed to acquire, through a merger, share exchange, asset acquisition, share purchase, reorganization, exchangeable share transaction or other similar business transaction, one or more operating businesses or assets (“Acquisition Transaction”). An IPAC is a blank check company that permits the Company to return funds from a trust account to redeeming shareholders after the completion of an Acquisition Transaction. To date, our efforts have been limited to organizational activities and a search for suitable businesses or assets to acquire Status as Emerging Growth Company.

As of April 30, 2014, the Company had not yet commenced operations. All activity through April 30, 2014 relates to the Company’s formation, initial public offering of its securities and the identification and investigation of a suitable operating business or assets with which to complete an Acquisition Transaction.

On June 16, 2014, a Stock Purchase Agreement (the “Red Rock Agreement”) was entered into by and among CIS, Red Rock Holdings Group, LLC, a Delaware Limited Liability company (“Red Rock” or the “Target”), and Foster Jennings, Inc., Red Rock’s sole member (the “Member”). Since the Company entered into the Agreement on June 16, 2014, and filed with the SEC a tender offer on June 23, 2014, the time period for closing the Acquisition Transaction was automatically extended to September 21, 2014. Red Rock defaulted on its obligation under the Red Rock Agreement. On September 16, 2014, CIS terminated the Red Rock Agreement as it did not provide audited financial statements.

On September 16, 2014, a Stock Purchase Agreement (the “Agreement”) was entered into by and among CIS, Delta Advanced Materials Limited, a Hong Kong company (“Delta”) and Elite Ride Limited, a British Virgin Islands company (“Delta’s Parent”) and the Elite Ride Limited Shareholders (“Elite Shareholders”).

## Critical Accounting Policies

### Fair Value

The carrying amounts of cash, cash equivalents, restricted cash, and accrued expenses and other current liabilities, approximate fair value due to the short-term nature of these instruments.



Fair value is defined as an exit price, representing the amount that would be received upon the sale of an asset or payment to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

- Level 1. Quoted prices in active markets for identical assets or liabilities.
- Level 2. Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3. Significant unobservable inputs that cannot be corroborated by market data.

*Derivative Warrant Liabilities*

The Company accounts for the 4,000,000 public warrants and 4,500,000 placement warrants in accordance with the guidance contained in ASC 815-40-15-7D whereby under that provision they do not meet the criteria for equity treatment and must be recorded as a liability. Accordingly, the Company classifies the warrant instrument as a liability at its fair value. This liability is subject to re-measurement at each balance sheet date until exercise, redemption or expiration, and any change in fair value is recognized in the Company's statements of operations.

Ordinary Shares Subject to Possible Conversion

The ordinary public shares contain a redemption feature. In accordance with ASC 480, “Distinguishing Liabilities from Equity” (“ASC 480”), redemption provisions not solely within the control of the Company require the security to be classified outside of permanent equity.

Accordingly, 3,500,000 of the 4,000,000 public shares were classified outside of permanent equity at redemption value because the redemption rights are subject to the occurrence of certain events that are outside of the Company’s control. The redemption value at October 31, 2013 was equal to approximately the pro rata share of the aggregate amount then on deposit in the Trust Account (\$10.40 per share at October 31, 2013).

**Status as Emerging Growth Company**

We are an emerging growth company as defined in the JOBS Act. As an emerging growth company, we have elected to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As such, our financial statements may not be comparable to companies that comply with public company effective dates.

**Results of Operations**

*Six Months Ended April 30, 2014 and 2013*

Our entire activity from inception up to the closing of our initial public offering on December 21, 2012 was in preparation for that event. Since the offering, our activity has been limited to the evaluation of business combination candidates, and we will not be generating any operating revenues until the closing and completion of our initial business combination. We expect to generate small amounts of non-operating income in the form of interest income on cash and cash equivalents.

We incurred net losses of \$265,132 and \$4,068,131, for the six months ended April 30, 2014 and April 30, 2013, respectively. Our net losses for the six months ended April 30, 2014 and April 30, 2013 included (i) legal and professional fees of \$234,406 and \$23,332, respectively, which were incurred principally in connection with our formation, the pursuit of our Acquisition Transaction and to comply with our public company reporting obligations,

(ii) amounts paid to CIS Acquisition Holding Co. Ltd. for office space, administrative services and secretarial support of \$45,000 and \$30,000, (iii) general and administrative expenses of \$38,506 and \$26,780 and (iv) a benefit (charge) of \$45,000 and (\$3,995,000) to record the change in fair value and initial fair value, of the warrant derivative liability for public warrants and the placement warrants (See discussion below).

While preparing its balance sheet as of April 30, 2013, the Company identified and corrected an error related to the accounting for the Company's outstanding warrants. The amount of the error was approximately \$3,570,000 as of December 21, 2012. The Company determined that its outstanding warrants should have been accounted as a liability recorded at fair value and that this liability should be re-measured at each reporting period with changes in fair value being reflected in the statement of operations. The determination of this accounting methodology was made as a result of potential adjustments to the exercise price of the warrants in certain circumstances as described in the warrant agreements which do not meet the criteria for equity treatment described in ASC 815-45-7D.

In accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin Nos. 99 and 108 ("SAB 99" and "SAB 108"), the Company has evaluated these errors, based on an analysis of quantitative and qualitative factors, as to whether they were material to each of the prior reporting periods affected and if amendments of previously filed Reports of Foreign Private Issuer on Form 6-K with the SEC are required. The Company has determined that though quantitatively and qualitatively material to the previously furnished balance sheet dated December 21, 2012 on Form 6-K filed with the SEC on December 28, 2012, the Company believes the recording of the warrants as liability instruments would not have influenced an investor's decision making process and has determined to record the liability as of April 30, 2013, as opposed to a restatement and reissuance of the previously furnished balance sheet. For the six months ended April 30, 2013, the charge of \$3,995,000 for the fair value of the warrant liability represents the effect of the fair value upon issuance of \$3,570,000, plus the adjustment to fair value of \$425,000 through April 30, 2013.

*Year ended October 31, 2013 Compared to the Period November 28, 2011(inception) through October 31, 2012*

Our entire activity from inception up to the closing of our initial public offering on December 21, 2012 was in preparation for that event. Since the offering, our activity has been limited to the evaluation of business combination candidates, and we will not be generating any operating revenues until the closing and completion of our initial business combination. We expect to generate small amounts of non-operating income in the form of interest income on cash and cash equivalents.

We incurred net losses of \$3,429,198, \$4,873 and \$3,434,071 for the year ended October 31, 2013, for the period November 28, 2011 (inception) through October 31, 2012 and for the period from November 28, 2011 (inception) through October 31, 2013, respectively. Our net losses for the year ended October 31, 2013, for the period November 28, 2011 (inception) through October 31, 2012 and for the period from November 28, 2011 (inception) through October 31, 2013 included (i) legal and professional fees of \$95,252, \$4,873 and \$100,125 which were incurred principally in connection with our formation, the pursuit of an Acquisition Transaction and to comply with our public company reporting obligations, (ii) amounts paid to CIS Acquisition Holding Co. Ltd. for office space, administrative services and secretarial support of \$75,000, \$0 and \$75,000, (iii) general and administrative expenses of \$43,567, \$0 and \$43,567, which included a charge of \$5,000 for a theft loss in connection with an unrecovered loss from an unauthorized bank transaction and (iv) a charge of \$3,230,000, \$0 and \$3,230,000 to record the fair value of the warrant derivative liability for public warrants and the placement warrants (See discussion below).

As discussed above, while preparing its balance sheet as of April 30, 2013, the Company identified and corrected an error related to the accounting for the Company's outstanding warrants. The amount of the error was approximately \$3,570,000 as of December 21, 2012.

In accordance with SEC SAB 99 and SAB 108, the Company has evaluated these errors, based on an analysis of quantitative and qualitative factors, as to whether they were material to each of the prior reporting periods affected and if amendments of previously filed Reports of Foreign Private Issuer on Form 6-K with the SEC are required. The Company has determined that though quantitatively and qualitatively material to the previously furnished balance sheet dated December 21, 2012 on Form 6-K filed with the SEC on December 28, 2012, the Company believes the recording of the warrants as liability instruments would not have influenced an investor's decision making process and has determined to record the liability in the year ended October 31, 2013, as opposed to a restatement and reissuance of the previously furnished balance sheet. The charge of \$3,230,000 to record the fair value of the warrant liability represents the effect of the fair value upon issuance of \$3,570,000, net of the adjustment to fair value of \$340,000 through October 31, 2013.

**Financial Condition and Liquidity**

The net proceeds from our IPO and Private Placement, after deducting offering expenses of \$718,809 and underwriting discounts of \$720,000, were \$41,938,911. Of this amount, \$41,600,000 was placed in the trust account. The remaining \$338,191 of net proceeds not in trust have been and will continue to be used for working capital purposes.

We intend to use the net proceeds of our initial public offering and private placement sale of warrants, including the funds held in the trust account, to acquire a target business and to pay our expenses relating thereto. To the extent that our capital stock is used in whole or in part as consideration to effect a business combination, the remaining proceeds held in the trust account as well as any other net proceeds not expended will be used as working capital to finance the operations of the target business. Such working capital funds could be used in a variety of ways including continuing or expanding the target business' operations, for strategic acquisitions and for marketing, research and development of existing or new products. Such funds could also be used to repay any operating expenses or finders' fees, which we had incurred prior to the completion of our business combination if the funds available to us outside of the trust account were insufficient to cover such expenses.

Generally, the proceeds held in the trust account will not be released to us until the earlier of our completion of an initial business combination and our redemption of 100% of the outstanding public shares upon our failure to consummate a business combination within the required time period. Notwithstanding the foregoing, there can be released to us from the trust account (1) any interest earned on the funds in the trust account that we need to pay our income or other tax obligations and (2) any remaining interest earned on the funds in the trust account that we need for our working capital requirements.

As of April 30, 2014, we had \$12,648 in our operating bank accounts and \$41,622,401 in restricted cash and equivalents held in trust to be used for an initial business combination. As of April 30, 2014, we have not withdrawn from the trust account any interest income for our working capital and tax obligations. As of April 30, 2014, \$22,401 of the amount on deposit in the trust account represents interest income, which was available to be withdrawn by us as described above. As of September 16, 2014, all of our funds are held in cash.

Until consummation of our initial business combination, we will be using the funds not held in the trust account, plus the interest earned on the trust account balance that may be released to us to fund our working capital requirements, for identifying and evaluating prospective acquisition candidates, performing business due diligence on prospective target businesses, traveling to and from the offices, plants or similar locations of prospective target businesses, reviewing corporate documents and material agreements of prospective target businesses, selecting the target business to acquire and structuring, negotiating and consummating the business combination. We believe the funds not held in trust, plus the interest earned on the trust account balance that may be released to us, plus the remaining borrowing capacity under our loan agreement with CIS Acquisition Holding Co. Ltd., will be sufficient to fund our operations through at least September 21, 2014, assuming we have not consummated a business combination during that period of time.

If our estimates of the costs of undertaking in-depth due diligence and negotiating our initial business combination is less than the actual amount necessary to do so, or the amount of interest available to us from the trust account is less than we expect as a result of the current interest rate environment, we may have insufficient funds available to operate our business prior to our initial business combination. Moreover, we may need to obtain additional financing either to consummate our initial business combination or because we become obligated to redeem a significant number of our public shares upon consummation of our initial business combination, in which case we may issue additional securities or incur debt in connection with such business combination. Subject to compliance with applicable securities laws, we would only consummate such financing simultaneously with the consummation of our initial business combination. In the current economic environment, it has become especially difficult to obtain acquisition financing. Following our initial business combination, if cash on hand is insufficient, we may need to obtain additional financing in order to meet our obligations.

We anticipate that we will need to use all of the remaining funds in cash as well as entering into contingent fee arrangements with our vendors in order to meet the expenditures required for operating our business until we consummate our initial business combination. We may need to raise additional capital through loans or additional investments from our sponsors, officers, directors or third parties. Our sponsors, officers and directors are not obligated to loan us funds as may be required. If we consummate our initial business combination, we would repay such loaned amounts. In the event that the initial business combination does not close, we may use a portion of the remaining proceeds held outside the trust account to repay such loaned amounts, but no proceeds from our trust account would be used for such repayment. Accordingly, we may not be able to obtain additional financing. If we are unable to raise additional capital, we may be required to take additional measures to conserve liquidity, which could include, but not necessarily be limited to, curtailing operations, suspending the pursuit of our business plan, and controlling overhead expenses. We cannot provide any assurance that new financing will be available to us on commercially acceptable terms, if at all.

Commencing on December 18, 2012 and ending upon the consummation of a business combination or our liquidation, we have agreed to pay to CIS Acquisition Holding Co. Ltd. a total of \$7,500 per month for office space, administrative services and secretarial support for a period commencing on the date of the IPO and ending on the earlier of our consummation of an acquisition transaction or our liquidation. Such fees have been paid as incurred only out of interest earned on the trust account or assets not held in trust, if any. If there are insufficient funds from interest earned on the trust account or from assets not held in trust, then the obligation to CIS Acquisition Holding Co. Ltd. will be accrued and not paid. During the six months ended April 30, 2014 and April 30, 2013, the Company has incurred \$45,000 and \$30,000, respectively, for these office space expenses to CIS Acquisition Holding Co., Ltd.

On March 24, 2014, we entered into an agreement with CIS Acquisition Holding Co. Ltd., under which for one year we may borrow up to \$300,000 with no interest. All amounts borrowed under this agreement are due March 23, 2015. On March 25, 2014 and June 11, 2014, we borrowed \$30,000 and \$120,000 under this borrowing arrangement. As of April 30, 2014 and September 16, 2014, a balance of \$30,000 and \$150,000, respectively, was outstanding under this loan.

### **Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of April 30, 2014.

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **A. Directors and Senior Management**

Our directors and executive officers immediately following the consummation of the Business Combination are described in this report under the heading “Directors and Executive Officers”.

### **B. Compensation**

#### **Delta**

#### *Director Compensation*

Delta currently does not pay any compensation to members of its board of directors. Future compensation to be paid to its directors, if any, will be determined in the future.

#### *Executive Compensation*



***Overview of Executive Compensation***

Delta pays annual base salaries to each of Xin Chao, Changguang Wu, Jianmin Xia, Ming Chao, and Hong Yan of approximately RMB367,967, RMB238,907, RMB170,292, RMB29,443, and HK\$480,000, respectively, in 2013. We pay annual base salaries to each of Xin Chao, Changguang Wu, Jianmin Xia, Ming Chao, and Hong Yan of RMB368,889, RMB239,829, RMB57,040, RMB117,624, and HK\$480,000, respectively, in 2012.

***Grants of Plan Based Awards***

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

***Employment Agreements***

On June 15, 2007, Delta entered into an employment agreement with Xin Chao pursuant to which Xin Chao agreed to act as its chairman and Chief Executive Officer. The employment agreement does not have a definite term. The employment agreement provides for a base salary of RMB462,000 a year, with performance based bonus.

On June 15, 2007, Delta entered into an employment agreement with Changguang Wu pursuant to which Changguang Wu agreed to act as its general manager. The employment agreement does not have a definite term. The employment agreement provides for a base salary of RMB289,920 a year, with performance based bonus.

On September 1, 2012, Delta entered into an employment agreement with Jianmin Xia pursuant to which Jianmin Xia agreed to act as its general manager. The employment agreement has a term beginning September 1, 2012 and ending December 31, 2017. The employment agreement provides for a base salary of RMB180,000 a year, with performance based bonus.

On October 1, 2012, Delta entered into an employment agreement with Ming Chao pursuant to which Ming Chao agreed to act as its general financial manager. The employment agreement has a term of three years. The employment agreement provides for a base salary of RMB156,000 a year, with performance based bonus.

On May 1, 2012, Delta entered into an employment agreement with Hong Yan pursuant to which Hong Yan agreed to act as its Chief Financial Officer. The employment agreement has a term of three years. The employment agreement provides for a base salary of RMB\$480,000 a year, with performance based bonus.

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

As of the date hereof, none of the named executives of Delta have held compensation based options to purchase interests in Delta or other awards with values based on the value of Delta.

***Pension Benefits***

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

***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 Delta.

**CIS**

None of our directors or officers have received any cash compensation for services rendered to us. Our founders own an aggregate of 1,000,000 Class A Shares, which they acquired for an aggregate purchase price of \$25,000. In addition, we issued our founders and their assignees, in a private placement occurring immediately prior to the consummation of the IPO, 4,500,000 warrants for aggregate consideration of \$3,375,000. We believe that because our officers and directors own such shares and warrants, no compensation (other than reimbursement of out-of-pocket

expenses) is necessary, and such persons have agreed to serve in their respective role without compensation.

We have agreed to pay to CIS Acquisition Holding Co. Ltd. a total of \$7,500 per month for office space, administrative services and secretarial support for a period commencing on the date of the IPO and ending on the earlier of our consummation of an acquisition transaction or dissolution and liquidation of the trust account in the event we do not consummate an acquisition transaction within the relevant time period. Such fees have been paid as incurred only out of interest earned on the trust account or assets not held in trust, if any. If there are insufficient funds from interest earned on the trust account or from assets not held in trust, then the obligation to CIS Acquisition Holding Co. Ltd. will be accrued and not paid. CIS Acquisition Holding Co. Ltd. is an affiliate of Anatoly Danilitskiy, our Chairman and Chief Executive Officer, and Taras Vazhnov, our director. This arrangement was agreed to by the board of directors for our benefit and is not intended to provide Messrs. Danilitskiy or Vazhnov compensation.

Other than this \$7,500 per month fee, no compensation of any kind, including finder's and consulting fees, will be paid to our officers, directors or any of their respective affiliates for services rendered prior to or in connection with an acquisition transaction. However, our officers, directors and their respective affiliates will receive reimbursement for any reasonable out-of-pocket expenses incurred by them in connection with identifying, investigating and consummating a potential acquisition transaction with one or more target businesses. There are no limitations on the amount of expenses for which they can seek reimbursement, provided such expenses were incurred for our benefit. There will be no review of the reasonableness of the expenses by anyone other than our board of directors, which includes persons who may seek reimbursement, or a court of competent jurisdiction if such reimbursement is challenged. To the extent such out-of-pocket expenses exceed the available proceeds not deposited in the trust account, such out-of-pocket expenses would not be reimbursed by us unless we consummate our initial acquisition transaction.

Although we currently anticipate that some members of our management team will remain with us post-acquisition transaction, some or all of our current executive officers and directors may or may not remain with us following our initial acquisition transaction, depending on the type of business acquired and the industry in which the target business operates. After the acquisition transaction, our directors and officers who remain with us may be paid consulting, management or other fees from the combined company with any and all amounts being fully disclosed to shareholders, to the extent then known, in the prospectus/proxy solicitation or tender offer materials furnished to our shareholders. It is unlikely that the amount of such compensation will be known at the time of an acquisition transaction, as it will be up to the directors of the post-transaction business to determine executive and director compensation. We cannot assure you that our current executive officers and directors will be retained in any significant role, or at all, and have no ability to determine what remuneration, if any, will be paid to them if they are retained following our initial acquisition transaction.

We have not set aside any amount of assets for pension or retirement benefits.

Any compensation to be paid to our chief executive officer and other officers will be determined, or recommended to the board of directors for determination, either by a compensation committee constituted solely by independent directors or by a majority of the independent directors on our board of directors.

### **Employment Agreements**

On January 10, 2012, we entered into an agreement with Kyle Shostak and CIS Acquisition Holding Co. Ltd., our majority shareholder, pursuant to which we and CIS Acquisition Holding Co. Ltd. agreed that Mr. Shostak shall serve as our Chief Financial Officer, Secretary and a director until the closing of an initial acquisition transaction. We also agreed to sell to Mr. Shostak 110,250 placement warrants immediately prior to the consummation of this offering on the same terms as are offered to CIS Acquisition Holding Co. Ltd. In the event that the over-allotment option granted to the underwriters in this offering is not exercised in full, Mr. Shostak agreed to return for cancellation a pro-rata portion of the Class C Shares he holds immediately prior to the consummation of this offering. Mr. Shostak does not receive any other compensation for services rendered to us, other than reimbursements for business-related expenses incurred in the course of his duties as our officer.

Other than as disclosed above, we have not entered into any employment agreements with our executive officers, 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.* Immediately following the transaction contemplated by the Purchase Agreement, the audit committee consists of David Chi-Ping Chow, Richard Liu and George Kaufman. David Chi-Ping Chow is the chair of the audit committee, and our Board of Directors believes that Mr. Chow qualify as “audit committee financial experts”, as such term is defined in the rules of the Securities and Exchange Commission. David Chi-Ping Chow serves as Chair of the Audit Committee.

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.* Immediately following the transaction contemplated by the Purchase Agreement, our compensation committee consists of David Chi-Ping Chow, Richard Liu and George Kaufman. The members of the compensation committee do not have any direct or indirect material relationship with us other than as a director. George Kaufman serves as Chair of the Compensation Committee.

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.* Immediately following the transaction contemplated by the Purchase Agreement, our governance and nominating committee consists of David Chi-Ping Chow, Richard Liu and George Kaufman. The members of the governance and nominating committee do not have any direct or indirect material relationship with us other than as a director. Richard Liu 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

Our Board of Directors has determined that David Chi-Ping Chow, Richard Liu and George Kaufman qualify as independent directors under the rules of the Nasdaq Marketplace Rules because they are not currently employed by us, and do not fall into any of the enumerated categories of people who cannot be considered independent in the Nasdaq Marketplace Rules.

## D. Employees

As of the closing of the Business Combination, Delta has a total of 309 full-time employees, all of whom are located in Zhenjiang, Jiangsu Province, the PRC. Delta does not experience any significant seasonal fluctuations in its number of employees. The number of temporary employees employed by it during the periods under review was insignificant.

None of Delta's employees are represented by a union. Delta believes that its relationship with its employees has historically been good and this is expected to continue.

The functional distribution of Delta's full-time employees as of the date of this report is as follows:

Function	Number
Management	6
Sales and marketing	8
Research and Development	28
Safety and environmental protection	19
Production	24
Procurement	5
New Material	49
Logistics	20



Quality control	13
Administration	35
Production workers	102
Total	309

### **E. Share Ownership**

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of September 23, 2014, giving effect to the transactions contemplated by the Purchase Agreement:

- 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.

Unless otherwise indicated, we believe that all persons named in the table have sole voting and investment power with respect to all ordinary shares beneficially owned by them. The following table does not include securities underlying warrants or options that are not exercisable within 60 days of September 23, 2014. All shares have identical voting rights.

Name and Address of Beneficial Owner <sup>(1)</sup>	Amount of Beneficial Ownership	<b>Approximate Percentage of Outstanding Ordinary Shares<sup>(2)</sup></b>	
Directors and Executive Officers:			
Xin Chao, CEO and Chairman (3)	2,410,200	34.27	%
Richard Yan, CFO	27,600	*	
David Chi-Ping Chow, Director	0	*	
Richard Liu, Director	0	*	
Changuang Wu, Director	0	*	
George Kaufman, Director	0	*	
All directors and executive officers as a group (6 individuals)	2,437,800	34.65	%
Five Percent Holders:			
CIS Acquisition Holding Ltd. (4)	1,463,250	20.81	%
Master Kingdom Holdings Ltd. (3)	2,410,200	34.27	%
KIP Growth Capital Fund No. 17 (5)	967,900	13.76	%
KPCB China Fund, L.P. (6)	992,200	14.11	%

\*Less than one percent

(1) Unless otherwise noted, the business address for each of our beneficial owners is c/o CIS Acquisition Ltd., 16 Kaifada Road, Danyang, Jiangsu, China.

(2) Based on 7,033,059 ordinary shares outstanding (excluding 3,500,000 Class A shares subject to redemption and 1,500,000 Class C shares subject to certain net income performance targets). Does not include ordinary shares underlying the warrants underlying the units sold in the IPO and the placement warrants which will not become exercisable within the next 60 days.

(3) Held through Master Kingdom Holdings Ltd. (“Master Kingdom”). Mr. Xin Chao is the owner of Master Kingdom and as such, is deemed to hold voting and dispositive power of the securities held by Master Kingdom.

(4) Messrs. Danilitskiy and Vazhnov share voting and dispositive power over the founders’ shares owned by CIS Acquisition Holding Co. Ltd. CIS Acquisition Holding Co. Ltd. is owned by Zelda Finance Ltd. and SPAC Investments Ltd. Anatoly Danilitskiy controls Zelda Finance Ltd. and Taras Vazhnov controls SPAC Investments

Ltd. The business address of Zelda Finance Ltd. is Withfield Tower, 3rd floor, 4792 Coney Drive, Belize City, Belize. The mailing address of SPAC Investments Ltd. is FH Chambers, P.O. Box 4649, Road Town, Tortola, British Virgin Islands.

Korean Investment Partners Co., Ltd. (“KIP”), as the general investor of KIP Growth Capital Fund No. 17 (5) (“KIPGCF”), has voting and investment power over securities held by KIPGCF. The address of KIPGCF is 2bfl., Gangnam Finance Center 737 Yeoksam-dong, Gangnam-gu, Seoul, Korea.

KPCB China Associates, Ltd. is the general manager of KPCB China Fund, L.P. (“KPCB”) and holds voting and (6)dispositive power of the securities held by KPCB. The address for KPCB is P.O. Box 309, GT Uglan House, South Church Street, Georgetown, Grand Cayman, Cayman Islands.

## **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**

As of June 30, 2014, 2013 and 2012, Delta had short-term borrowings from banks which were repayable within one year and charged at interest rates ranging from 3.9% to 8.7%, from 2.5% to 9.0% and from 2.5% to 10.4% per annum, respectively. Such borrowings 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, as well as Mr. Changguang Wu for the year ended June 30, 2014 and Mr. Xin Chao, the immediate and ultimate controlling party of Delta for the years ended June 30, 2014, 2013 and 2012.

## **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*

We are not involved in any other legal proceedings. We have no knowledge of any proceedings pending or threatened against any of our subsidiaries or any facts likely to give rise to any litigation, claims or proceedings which might have a material effect on its financial position or profitability.

### **B. Significant Changes**

None.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offer and Listing Details**

Our units, shares and warrants have been listed on the NASDAQ Capital Market under the symbols CISAU, CISAA and CISAW, since December 19, 2012. The following tables set forth, for the calendar quarters indicated and through September 23, 2014, the high and low sale prices for our units, shares and warrants, as reported on NASDAQ for the periods presented.

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	Units (CISAU)		Shares (CISAA) <sup>(1)</sup>		Warrants (CISAW) <sup>(1)</sup>	
	High	Low	High	Low	High	Low
<b>Annual Highs and Lows</b>						
Fiscal Year Ended October 31, 2012	\$-	\$-	\$-	\$-	\$-	\$-
Fiscal Year Ended October 31, 2013 <sup>(1)</sup>	\$10.44	\$10.01	\$ 10.19	\$ 9.90	\$1.43	\$ .12
<b>Quarterly Highs and Lows</b>						
<b>2012</b>						
Fourth Quarter (Fiscal quarter ended October 31, 2012)	\$-	\$-	\$-	\$-	\$-	\$-
<b>2013</b>						
First Quarter (Fiscal quarter ended January 31, 2013)	\$10.25	\$10.00	\$-	\$-	\$-	\$-
Second Quarter (Fiscal quarter ended April 30, 2013) <sup>(1)</sup>	\$10.25	\$10.04	\$ 10.09	\$ 10.00	\$0.25	\$0.12
Third Quarter (Fiscal quarter ended July 31, 2013)	\$10.29	\$10.07	\$ 10.06	\$ 9.90	\$1.43	\$0.17
Fourth Quarter (Fiscal quarter ended October 31, 2013)	\$10.44	\$10.20	\$ 10.19	\$ 9.99	\$0.40	\$0.31
<b>2014</b>						
First Quarter (Fiscal quarter ended January 31, 2014)	\$11.05	\$10.25	\$ 10.35	\$ 10.00	\$0.34	\$0.18
Second Quarter (Fiscal quarter ended April 30, 2014)	\$10.51	\$10.27	\$ 10.35	\$ 10.00	\$0.25	\$0.20
Third Quarter (Fiscal quarter ended quarter ended July 30, 2014)	\$10.67	\$10.30	\$ 10.35	\$ 9.81	\$0.39	\$0.11
Fourth Quarter (Through September 23, 2014)	\$10.65	\$10.19	\$ 10.50	\$ 10.00	\$0.35	\$0.12
<b>Monthly Highs and Lows</b>						
November 2013	\$10.43	\$10.35	\$ 10.18	\$ 10.11	\$0.34	\$0.34
December 2013	\$10.39	\$10.25	\$ 10.20	\$ 10.01	\$0.34	\$0.26
January 2014	\$11.05	\$10.32	\$ 10.35	\$ 10.00	\$0.26	\$0.18
February 2014	\$10.51	\$10.27	\$ 10.26	\$ 10.11	\$0.25	\$0.20
March 2014	\$10.65	\$10.33	\$ 10.29	\$ 10.16	\$0.25	\$0.24
April 2014	\$10.58	\$10.35	\$ 10.30	\$ 10.00	\$0.17	\$0.17
May 2014	\$10.55	\$10.35	\$ 10.30	\$ 9.88	\$0.39	\$0.22
June 2014	\$10.67	\$10.38	\$ 10.35	\$ 9.81	\$0.37	\$0.11
July 2014	\$10.52	\$10.30	\$ 10.28	\$ 10.05	\$0.23	\$0.15
August 2014	\$10.33	\$10.19	\$ 10.45	\$ 10.00	\$0.18	\$0.12
September 2014 (through September 23, 2014)	\$10.65	\$10.28	\$ 10.50	\$ 10.00	\$0.35	\$0.12

(1) Such shares and warrants were eligible to begin separately trading on March 18, 2012.

## B. Plan of Distribution

Not applicable.

## C. Markets

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

**D. Selling Shareholders**

Not applicable.

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**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Our Amended and Restated Memorandum and Articles of Association authorizes the issuance of up to 150,000,000 shares into: (i) 25,000,000 Class A Shares; (ii) 25,000,000 Class B shares; (iii) 25,000,000 Class C shares; (iv) 75,000,000 ordinary shares each par value \$0.0001 per share, and 5,000,000 shares of preferred shares, par value \$0.0001 per share.

As of October 31, 2013, there were 5,136,000 ordinary shares outstanding (including 3,500,000 ordinary shares subject to redemption). As of September 23, 2014, there were 7,033,059 ordinary shares outstanding (excluding 1,500,000 Class C Shares in escrow that are subject to certain net income targets and after giving effect to the redemption of 3,500,000 Class A Shares).

As of October 31, 2013 and September 23, 2014, we had 4,000,000 public warrants and 4,500,000 CIS Placement Warrants outstanding, as well as a unit purchase option (“UPO”) for the purchase of 280,000 units. Each public warrant entitles the holder to purchase one share of common stock at a price of \$10.00. In connection with the Acquisition, the CIS Sponsor amended the 4,500,000 CIS Placement Warrants owned by the CIS Sponsor to provide that such warrants may be redeemed in the event CIS Common Stock trades at a price of \$17.50 per share for a period of ten (10) consecutive trading days and that such warrants may not be exercised on a cashless basis. The holder of the UPO is entitled to purchase each unit at a price of \$12.00 per unit. Each unit is comprised of one ordinary share and one warrant.



## **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

The material facts as to the director's or officer's relationship or interest and as to the contract or transaction are (b) 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, other than the payment of an aggregate of \$7,500 per month to CIS Acquisition Holding Co. Ltd., an affiliate of Anatoly Danilitskiy, our former Chairman and Chief Executive Officer, and Taras Vazhnov, our former director, for office space, administrative services and secretarial support, and any Interested Director shall abstain from such review and approval. Such fees have been paid as incurred only out of interest earned on the trust account or assets not held in trust, if any. If there are insufficient funds from interest earned on the trust account or from assets not held in trust, then the obligation to CIS Acquisition Holding Co. Ltd. will be accrued and not paid.

**Rights, Preferences and Restrictions Attaching to Our Ordinary Shares.** We are authorized to issue 155,000,000 shares divided into: (i) 25,000,000 Class A Shares; (ii) 25,000,000 Class B Shares; (iii) 25,000,000 Class C shares; (iv) 75,000,000 ordinary shares; and (v) 5,000,000 preferred shares, each par value \$0.0001 per share. As of September 23, 2014, 7,033,059 ordinary shares were outstanding (excluding 1,500,000 Class C Shares in escrow that are subject to certain net income targets and after giving effect to the redemption of 3,500,000 Class A Shares). 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).

*Provisions relating to the acquisition transaction*

Our Amended and Restated Memorandum and Articles of Association sets forth certain requirements and restrictions relating to the IPO that apply to us until the consummation of our initial acquisition transaction or post-acquisition tender offer, as the case may be. Specifically, our Amended and Restated Memorandum and Articles of Association provide that:

if we have entered into a letter of intent, agreement in principle or definitive agreement with respect to an acquisition transaction on or before June 21, 2014 and an initial filing with the SEC of a tender offer, proxy, or registration statement is made by such date, then the date before which we must complete our initial acquisition transaction will automatically be extended to September 21, 2014;

we may consummate our initial acquisition transaction only if public shareholders owning no more than 87.5% of the ordinary shares sold in the IPO exercise, or may exercise, their redemption rights;

if we have not completed an initial acquisition transaction within 18 months (or 21 months pursuant to the automatic period extension, as described above), we will dissolve and liquidate the trust account and distribute to public shareholders a pro rata share of the trust account determined by dividing the total amount in the trust account by the number of shares sold in the IPO (initially \$10.40 per share), plus any remaining net assets;

our management will take all actions necessary to liquidate our trust account to our public shareholders as part of our plan of dissolution if an acquisition transaction is not consummated within the time periods specified in this report;

our public shareholders' rights to receive a portion of the trust account is limited to the extent that they may receive only a portion of the trust account and only upon liquidation of our trust account in the event we do not consummate an acquisition transaction within 18 months (or 21 months pursuant to the automatic period extension, as described above) following the consummation of the IPO or upon the exercise of their redemption rights in connection with the consummation of an acquisition transaction;

our initial acquisition transaction must be with one or more operating businesses whose fair market value, either individually or collectively, is equal to at least 80% of the amount in the trust account (excluding taxes payable) at the time of such acquisition transaction;

following the IPO and prior to the time that we liquidate the trust account, we will not issue any securities that participate in the proceeds of our initial public offering that are held in the trust account or that have a vote in connection with any matter related to our initial acquisition transaction;

the Board of Directors shall review and approve all payments made to our founders, officers, directors, special advisors, consultants, and their respective affiliates with any interested director abstaining from such review and approval, other than the payment of an aggregate of \$7,500 per month to CIS Acquisition Holding Co. Ltd. for office space, administrative services and secretarial support. Such fees have been paid as incurred only out of interest earned on the trust account or assets not held in trust, if any. If there are insufficient funds from interest earned on the trust account or from assets not held in trust, then the obligation to CIS Acquisition Holding Co. Ltd. will be accrued and not paid.

we may not enter into any transaction with any of our officers, directors or any of our or their respective affiliates without the prior approval by a majority of our disinterested directors, and unless our disinterested directors

determine that the terms of such 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; and

we may not (i) consummate an acquisition transaction with a target business that is a portfolio company of, or has otherwise received a financial investment from, our founders or their affiliates, or that is affiliated with our founders or our directors or officers, or (ii) consummate an acquisition transaction with any underwriter, or underwriting selling group member, or any of their affiliates, unless in each case we obtain an opinion from an unaffiliated, independent investment banking firm that is a member of the Financial Industry Regulatory Authority, or FINRA, that an acquisition transaction with such target business is fair to our shareholders from a financial point of view.

Pursuant to our Amended and Restated Memorandum and Articles of Association, the foregoing provisions may be amended by at least 80% of the voting power of the total number of ordinary shares that were issued in the IPO. In addition, the relevant portions of the agreement governing the trust account can only be amended with the consent of 80% of the voting power of the callable Class A Shares or the callable Class B Shares. The agreement governing the trust account does not require consent of 100% of the voting power of the callable Class A Shares or the callable Class B Shares because we believe that it is in the best interest of our shareholders to allow a substantial majority of our public shareholders to amend the terms of the agreement if they so desire. Except for the shares issued immediately prior to the IPO and the callable Class A Shares underlying the units issued in connection with the IPO, we will not issue securities with voting rights to vote on any proposals to amend our Amended and Restated Memorandum and Articles of Association prior to the time that we liquidate the trust account. These provisions could also be eliminated by our completing a very small acquisition with minimal assets and operations. If any of these provisions are amended or eliminated, our shareholders:

- may not have all of the rights they previously had;
- might not receive the amount anticipated in connection with a redemption or liquidation; and
- might not receive amounts from the trust account in the time frames specified in this report.

In addition, our Amended and Restated Memorandum and Articles of Association provide shareholders with redemption rights only in connection with an acquisition transaction. In the event that a vote is called not in connection with an acquisition transaction to consider other amendments to our Amended and Restated Memorandum and Articles of Association no redemption rights will be granted.

### **C. Material Contracts**

Information concerning our material contracts governing the business of the Company is included elsewhere in this report or in the information incorporated by reference herein.

See the description of the Voting Agreement, the Registration Rights Agreement and the Call Agreement under Item 4. A.

### **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 Delta ordinary shares. BVI law and Delta's memorandum and articles of association do not impose any material limitations on the right of non-residents or foreign owners to hold or vote its 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.

## **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.

Because the components of a unit are separable at the option of the holder, the holder of a unit should be treated, for U.S. federal income tax purposes, as the owner of the underlying callable Class A Share and redeemable warrant components of the unit. As a result, the discussion below of the U.S. federal income tax consequences with respect to actual holders of callable Class A Shares and redeemable warrants should also apply to holders of units (as the deemed owners of the callable Class A Shares and redeemable warrants underlying the units).

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 (including persons that elect to convert our callable Class A Shares into Class C 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.

### **Allocation of Purchase Price and Characterization of a Unit and its Components**

While not free from doubt, each unit should be treated for U.S. federal income tax purposes as an investment unit consisting of one callable Class A Share and one redeemable warrant to acquire one ordinary share. For U.S. federal income tax purposes, each holder of a unit generally must allocate the purchase price of a unit between the callable Class A Share and the redeemable warrant that comprise the unit based on the relative fair market value of each at the time of acquisition. The price allocated to each callable Class A Share and the redeemable warrant generally will be the holder's tax basis in such share or redeemable warrant, as the case may be. While uncertain, the IRS, by analogy to the rules relating to the allocation of the purchase price to components of a unit consisting of debt and equity, may take the position that any allocation of the purchase price that we may make will be binding on a holder of a unit, unless the holder explicitly discloses in a statement attached to the holder's timely filed U.S. federal income tax return for the taxable year that includes the acquisition date of the unit that the holder's allocation of the purchase price between the callable Class A Share and the redeemable warrant that comprise the unit is different from our allocation. Any such allocation is not, however, binding on the IRS.

Although we intend to take a contrary position, if our callable Class A Shares or callable Class B Shares, as the case may be, are not viewed as participating in our corporate growth (i.e., our future earnings or increases in our net asset value) to any significant extent (other than by reason of any “conversion” feature), due to our limited potential for corporate growth prior to an acquisition transaction or due to an automatic trust liquidation and distribution if a post-acquisition tender offer is not commenced or completed within the allotted time, there is a risk that a holder’s entitlement to receive payments upon the exercise of the holder’s redemption right or upon our liquidation in excess of the holder’s tax initial basis in its callable Class A Shares or callable Class B Shares, as the case may be, will result in constructive income to the holder. This could affect the timing and character of income recognition and result in U.S. federal income tax liability to the holder without the holder’s receipt of cash from us.

Each holder is advised to consult its own tax advisor with respect to the risks associated with an investment in a unit (including alternative characterizations of a unit or the components thereof) and regarding the risks associated with an allocation of the purchase price between the callable Class A Share and the redeemable warrant that comprise a unit that is inconsistent with any allocation of the purchase price that we may make. The balance of this discussion assumes that the characterization of the units (and the components thereof) and any allocation of the purchase price as described above are respected for U.S. federal income tax purposes.

## **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. It is not entirely clear, however, whether a U.S. Holder’s holding period for such shares would be suspended for purposes of clause (3) above for the period that such holder had a right to have

such shares redeemed by us. 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 callable Class A Shares are currently listed and traded on the NASDAQ Capital Market, we cannot guarantee that our shares 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 shares.

***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 our callable Class A Shares or callable Class B Shares, as described in “— Taxation on the Redemption of Callable Class A Shares or Callable Class B Shares” below, or a redemption of redeemable warrants, including those underlying units), 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 a maximum regular rate of 20%. 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.

### ***Taxation on the Redemption of Callable Class A Shares or Callable Class B Shares***

In the event that a U.S. Holder (i) elects to tender its callable Class A Shares or callable Class B Shares to us in connection with a tender offer, or (ii) has its callable Class B Shares automatically converted into a right to receive a pro rata portion of the trust account in the case of an automatic trust liquidation triggered by the failure to commence or complete a post-acquisition tender offer within the allotted time, the amount received on any such transfer or deemed transfer of shares generally will be treated for U.S. federal income tax purposes as a payment in consideration for the sale of our callable Class A Shares or callable Class B Shares, as the case may be, rather than as a distribution. Such amounts, however, will be treated as a distribution and taxed as described in “— Taxation of Cash Distributions,” above, if (i) the redemption is “essentially equivalent to a dividend” (meaning that the U.S. Holder’s percentage



ownership in us (including shares the U.S. Holder is deemed to own under certain constructive ownership rules) after the redemption is not meaningfully reduced from what its percentage ownership in us (including constructive ownership) was prior to the redemption), (ii) the redemption is not “substantially disproportionate” as to that U.S. Holder (“substantially disproportionate” meaning, among other requirements, that the percentage of our outstanding voting shares owned (including constructive ownership) by such holder immediately following the redemption is less than 80% of that percentage owned (including constructive ownership) by such holder immediately before the redemption), and (iii) the redemption does not result in a “complete termination” of the U.S. Holder’s interest in us (taking into account certain constructive ownership rules). If the U.S. Holder had a relatively minimal interest in our shares and its percentage ownership in us (including constructive ownership and taking into account the effect of redemptions by other holders) is reduced as a result of the redemption, such holder generally should be regarded as having a meaningful reduction in interest. For example, the IRS has indicated in a published ruling that even a small reduction in the proportionate interest of a small minority shareholder in a publicly held corporation who exercises no control over corporate affairs may constitute such a “meaningful reduction.” A U.S. Holder should consult with its own tax advisors as to the U.S. federal income tax consequences to it of any redemption of its callable Class A Shares or callable Class B Shares.

### *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.

Because we are a blank check company, with no current active business, we believe that it is likely that we will meet the PFIC asset or income test for our taxable year ended October 31, 2013. However, pursuant to a start-up exception, a corporation will not be a PFIC for the first taxable year the corporation has gross income (the “start-up year”), if (1) no predecessor of the corporation was a PFIC; (2) the corporation satisfies the IRS that it will not be a PFIC for either of the first two taxable years following the start-up year; and (3) the corporation is not in fact a PFIC for either of those years. The applicability of the start-up exception to us is uncertain. After the acquisition of a company or assets in an acquisition transaction, we may still meet one of the PFIC tests depending on the timing of the acquisition and the amount of our passive income and assets as well as the passive income and assets of the acquired business. Our actual PFIC status for our 2013 or any subsequent taxable year, however, will not be determinable until after the end of such taxable year (or after the end of the start-up period, if later). We also do not plan to make annual determinations or otherwise notify U.S. Holders of our PFIC status. Accordingly, there can be no assurance with respect to our status as a PFIC for our 2013 taxable year or any future taxable year.

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 during the three preceding taxable years of such U.S. Holder or, if shorter, such U.S. Holder’s holding period for the shares).

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). 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. 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.

Alternatively, 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 callable Class A 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.

### *Conversions and Consolidations*

The callable Class A Shares will be automatically consolidated into ordinary shares upon the consummation of our initial acquisition transaction, unless we grant our public shareholders their redemption rights by means of a post-acquisition tender offer. In connection with a post-acquisition tender offer, each callable Class A Share outstanding immediately following the consummation of the initial acquisition transaction will be automatically converted into a callable Class B Share. Such callable Class B Shares will be automatically consolidated into one class of ordinary shares upon consummation of such post-acquisition tender offer.

Subject to the PFIC rules, a U.S. Holder should not recognize gain or loss on such a conversion or consolidation. A U.S. Holder's adjusted tax basis in the callable Class B Shares or ordinary shares, as the case may be, that such holder received upon such a conversion or consolidation should be equal to the holder's adjusted tax basis in the callable Class A Shares or callable Class B Shares, as the case may be, that such holder surrendered. In addition, a U.S. Holder's holding period in the callable Class B Shares or ordinary shares, as the case may be, that such holder received upon such a conversion or consolidation should include such holder's holding period in the callable Class A Shares or callable Class B Shares, as the case may be, that such holder surrendered.

If a U.S. Holder of our shares is treated as owning shares in a PFIC such that the special tax and interest charge rules as described above under “— *Passive Foreign Investment Company Rules*” apply to the shares, and the shares received on a conversion or consolidation are determined not to be interests in a PFIC subject to such rules, such holder may recognize gain equal to the difference between the fair market value of the shares received and the holder’s adjusted tax basis in the shares surrendered, and if any such gain is recognized, then such gain may be subject to the special tax and interest charge rules described above. In such a case, a U.S. Holder’s adjusted tax basis in such shares received should be equal to their fair market value, and such holder should have a new holding period in such shares for purposes of the PFIC rules. If the U.S. Holder made a QEF election with respect to the shares surrendered, such election should continue to apply to the shares received upon a conversion or consolidation.

### **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. The U.S. federal income tax treatment of the automatic conversion of the callable Class A Shares into callable Class B Shares in connection with a post-acquisition tender offer or the automatic

consolidation of the callable Class A Shares into ordinary shares or callable Class B Shares into ordinary shares, as the case may be, to a Non-U.S. Holder generally should correspond to the U.S. federal income tax treatment of such a conversion or consolidation to a U.S. Holder, as described under “*U.S. Holders — Conversions and Consolidations*,” except that Non-U.S. Holders are not subject to the PFIC rules.

### **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**

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.

The Foreign Enterprise Law provides that after payment of taxes, a wholly foreign-owned enterprise ("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 managed as debts.

#### **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 \$4.7 million based on our outstanding revenues, costs and expenses, assets and liabilities denominated in RMB as of December 31, 2013. As of December 31, 2013, our accumulated other comprehensive income was \$4.6 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.

**PART II**

Not Required.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

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

**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 report on its behalf.

Date: September 25, 2014 **CIS ACQUISITION LTD.**

*/s/ Xin Chao*  
Xin Chao  
Chief Executive Officer and Chairman

**CIS Acquisition Ltd.**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

of CIS Acquisition Ltd.

We have audited the accompanying balance sheets of CIS Acquisition Ltd. (a company in the development stage) (the “Company”) as of October 31, 2013 and 2012, and the related statements of operations, changes in shareholders’ equity and cash flows for the year ended October 31, 2013, for the period from November 28, 2011 (inception) through October 31, 2012 and for the period from November 28, 2011 (inception) through October 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CIS Acquisition Ltd. (a company in the development stage), as of October 31, 2013 and 2012, and the results of its operations and its cash flows for the year ended October 31, 2013, for the period from November 28, 2011 (inception) through October 31, 2012 and for the period from November 28, 2011 (inception) through October 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1, the Company has no present revenue and the Company’s cash and working capital as of October 31, 2013, are not sufficient to complete its planned activities through June 21, 2014, the date the Company is required to liquidate if it is unable to complete an acquisition transaction, which date may be extended to September 21, 2014 in certain circumstances. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP

Marcum LLP

New York, NY

March 17, 2014

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**CIS Acquisition Ltd.****(A Company in the Development Stage)****BALANCE SHEETS**

	As of October 31,	
	2013	2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 135,659	\$ 32,438
Prepaid expenses and other current assets	69,000	-
Total current assets	204,659	32,438
Deferred offering costs	-	342,344
Restricted investments and cash equivalents held in Trust Account	41,614,621	-
Total assets	\$ 41,819,280	\$ 374,782
<b>LIABILITIES, REDEEMABLE SHARES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable to shareholder	\$ -	\$ 322,155
Accrued offering costs	-	32,500
Accrued expenses	59,440	-
Total current liabilities	59,440	354,655
Warrant liability	3,230,000	-
Total liabilities	3,289,440	354,655
Commitments and contingencies:		
Class A shares, subject to possible redemption or tender, 3,500,000 and 0 shares at redemption value	36,400,000	-
Shareholders' Equity		
Preferred shares, \$0.0001 par value, 5,000,000 shares authorized; none issued or outstanding	-	-
Class A shares, \$0.0001 par value, 25,000,000 shares authorized; 1,636,000 and 0 shares issued and outstanding (excluding 3,500,000 and 0 Class A shares subject to possible redemption or tender) at October 31, 2013 and 2012, respectively	164	-
Class B shares, \$0.0001 par value, 25,000,000 shares authorized; none issued or outstanding	-	-
Class C shares, \$0.0001 par value, 25,000,000 shares authorized; none issued or outstanding	-	-
Ordinary shares \$0.0001 per share; 75,000,000 shares authorized; 0 and 1,090,000 shares issued and outstanding at October 31, 2013 and 2012, respectively <sup>(1)(2)</sup>	-	109
Additional paid in capital	5,563,747	24,891

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Deficit accumulated during the development stage	(3,434,071 )	(4,873 )
Total shareholders' equity	2,129,840	20,127
Total liabilities, redeemable common share and shareholders' equity	\$41,819,280	\$374,782

(1) At October 31, 2012, ordinary shares outstanding included an aggregate of 90,000 ordinary shares held by the founders that were subject to redemption if the underwriters' over-allotment option was not exercised in full. Such 90,000 ordinary shares became Class A shares upon the closing of the Public Offering and were redeemed for no consideration on March 18, 2013 because the underwriters over-allotment option expired unexercised on that date.

(2) Share amounts have been retroactively restated to reflect the effect of the contribution of an aggregate of 75,000 ordinary shares to the Company's capital at no cost to the Company and the subsequent cancellation of such shares on November 30, 2012 and the contribution of an aggregate of 272,500 ordinary shares to the Company's capital at no cost to the Company and the subsequent cancellation of such shares on December 14, 2012.

The accompanying notes are an integral part of these financial statements.

**CIS Acquisition Ltd.****(A Company in the Development Stage)****STATEMENTS OF OPERATIONS**

	For the Year Ended October 31, 2013	For the Period November 28, 2011 (Inception) Through October 31, 2012	For the Period November 28, 2011 (Inception) Through October 31, 2013
Formation and operating costs			
Legal and professional fees	\$ 95,252	\$ 4,873	\$ 100,125
Office expense – related party	75,000	-	75,000
General and administrative expenses	43,567	-	43,567
Loss from operations	(213,819 )	(4,873 )	(218,692 )
Change in fair value of warrants	(3,230,000 )	-	(3,230,000 )
Interest income	14,621	-	14,621
Net loss	\$ (3,429,198 )	\$ (4,873 )	\$ (3,434,071 )
Weighted average shares outstanding, basic and diluted <sup>(1)(2)</sup>	1,548,877	1,000,000	
Basic and diluted net loss per common share	\$ (2.21 )	\$ (0.00 )	

(1) Excludes an aggregate of 90,000 ordinary shares held by the founders that were subject to redemption to the extent the underwriters' over-allotment option was not exercised in full. Such shares became Class A Shares upon closing of the Public Offering and were redeemed for no consideration on March 18, 2013.

(2) Share amounts have been retroactively restated to reflect the effect of the contribution of an aggregate of 75,000 ordinary shares to the Company's capital at no cost to the Company and the subsequent cancellation of such shares on November 30, 2012 and the contribution of an aggregate of 272,500 ordinary shares to the Company's capital at no cost to the Company and the subsequent cancellation of such shares on December 14, 2012.

The accompanying notes are an integral part of these financial statements.

**CIS Acquisition Ltd.****(A Company in the Development Stage)****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****For the Period from November 28, 2011 (Inception) through October 31, 2013**

	Ordinary Shares		Class A Shares		Additional Paid-in	Deficit Accumulated During the Development Stage	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Capital		
Balance, November 28, 2011 (inception)	-	\$ -	-	\$ -	\$-	\$-	\$-
Sale of ordinary shares on November 28, 2011, at \$0.0001 per share	38	-	-	-	-	-	-
Sale of ordinary shares on February 13, 2012, at approximately \$0.0087 per share	1,089,962	109	-	-	24,891	-	25,000
Net loss for the period from November 28, 2011 (inception) through October 31, 2012	-	-	-	-	-	(4,873 )	(4,873 )
Balance, October 31, 2012	1,090,000	\$ 109	-	\$ -	\$24,891	\$ (4,873 )	\$ 20,127
Exchange of founders' Ordinary Shares for Class A shares	(1,090,000)	(109 )	1,090,000	109	-	-	-
Sale of 4,000,000 units on December 21, 2012 at \$10.00 per unit, net of underwriters' discount and offering costs	-	-	4,000,000	400	38,560,791	-	38,561,191
	-	-	-	-	3,375,000	-	3,375,000



Sale of 4,500,000 warrants on December 21, 2012 at \$0.75 per warrant in a private placement							
Sale of 136,000 Class A shares on December 21, 2012 at approximately \$0.02 per share, to the underwriters	-	-	136,000	14	2,706	-	2,720
Forfeiture of Founders' Shares in connection with the option underwriters' election to not exercise their over-allotment on March 18, 2013	-	-	(90,000 )	(9 )	9	-	-
Net proceeds subject to possible redemption of 3,500,000 shares at redemption value <sup>(1)</sup>	-	-	(3,500,000)	(350 )	(36,399,650)	-	(36,400,000)
Net loss for the year ended October 31, 2013	-	-	-	-	-	(3,429,198 )	(3,429,198 )
Balance, October 31, 2013	-	\$ -	1,636,000	\$ 164	\$5,563,747	\$(3,434,071 )	\$2,129,840

(1) A total of 3,500,000 shares of Class A Shares were subject to redemption or tender at October 31, 2013.

The accompanying notes are an integral part of these financial statements.

**CIS Acquisition Ltd.****(A Company in the Development Stage)****STATEMENTS OF CASH FLOWS**

	For the Year Ended October 31, 2013		For the Period November 28, 2011 (Inception) Through October 31, 2012		For the Period November 28, 2011 (Inception) Through October 31, 2013
Cash flows from operating activities:					
Net Loss	\$ (3,429,198	)	\$ (4,873	)	\$ (3,434,071
Adjustments to reconcile net loss to net cash used in operating activities:					
Accretion of discount on investments held in trust	(14,621	)	-		(14,621
Change in fair value of warrant liability	3,230,000				3,230,000
Changes in operating assets and liabilities:					
Prepaid expenses and other current assets	(69,000	)	-		(69,000
Accrued liabilities	59,440		-		59,440
Net cash used in operating activities	(223,379	)	(4,873	)	(228,252
Cash flows from investing activities:					
Purchases of restricted investments and cash equivalents held in Trust Account	(83,211,600	)	-		(83,211,600
Proceeds from maturity of restricted investments and cash equivalents held in Trust Account	41,611,600		-		41,611,600
Net cash used in investing activities	(41,600,000	)	-		(41,600,000
Cash flows from financing activities:					
Proceeds from sale of shares to initial shareholders	-		25,000		25,000
Proceeds from Public Offering, net of offering costs	39,016,600		-		39,016,600
Proceeds from note payable to an affiliate	(322,155	)	322,155		-
Payment of deferred offering costs	(145,565	)	(309,844	)	(455,409
Proceeds from Warrant Offering	3,375,000		-		3,375,000
Proceeds from Sale of Class A Shares to Underwriter	2,720		-		2,720
Net cash provided by financing activities	41,926,600		37,311		41,963,911
Net (decrease) increase in cash and cash equivalents	103,221		32,438		135,659
Cash and cash equivalents - beginning	32,438		-		-
Cash and cash equivalents - ending	\$ 135,659		\$ 32,438		\$ 135,659
Supplemental Disclosure of Non-cash Financing Activities:					
Accrual of deferred offering costs	\$ -		\$ 32,500		\$ -

The accompanying notes are an integral part of these financial statements.

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CIS Acquisition Ltd.  
(A Development Stage Company)

Notes to Financial Statements

## **1. Organization, Plan of Business Operations, Liquidity and Going Concern**

### **Organization and Plan of Business Operations**

CIS Acquisition Ltd. (a corporation in the development stage) (the “Company”) was formed on November 28, 2011 under the laws of the British Virgin Islands as an innovated public acquisition company (“IPAC”). The Company was formed to acquire, through a merger, share exchange, asset acquisition, share purchase, reorganization, exchangeable share transaction or other similar business transaction, one or more operating businesses or assets that the Company has not yet identified (“Acquisition Transaction”). An IPAC is a blank check company that permits the Company to return funds from a trust account to redeeming shareholders after the completion of an Acquisition Transaction. Although the Company is not limited to a particular geographic region or industry, it intends to focus on operating businesses with primary operations in Russia and Eastern Europe. As of October 31, 2013, the Company had not yet commenced operations. All activity through October 31, 2013 relates to the Company’s formation, initial public offering of its securities and search for a suitable operating business or assets with which to complete an Acquisition Transaction. The Company is considered to be in the development stage as defined in Financial Accounting Standards Board (“FASB”) Accounting Standard Codification, or ASC 915, “Development Stage Entities,” and is subject to risks associated with activities of development stage companies.

The accompanying financial statements are presented in U.S. dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and pursuant to the accounting and disclosure rules of the Securities and Exchange Commission (“SEC”). The Company has evaluated events through the issuance of this Form 20-F.

The Company was required to determine if it was a foreign private issuer (“FPI”) under Rule 3b4(d) of the Exchange Act, as of a date within 30 days of the filing of the Registration Statement with the SEC for the Public Offering. The Company determined it was an FPI prior to the filing of the Registration Statement. As an FPI, the Company will be required to comply with the tender offer rules in connection with its initial Acquisition Transaction. The Company is required to determine its status as an FPI on an ongoing basis for all subsequent fiscal years as of the last day of its most recently completed second fiscal quarter. Accordingly, as of the last day of its most recently completed second quarter (April 30, 2013), the Company determined that it was an FPI. If the Company were to no longer qualify as an FPI (as set forth in Rule 3b4 of the Exchange Act), the Company would then become subject to the US domestic issuer rules as of the first day of its fiscal year following the determination date.

The registration statement for the Company's initial public offering ("Public Offering") was declared effective on December 18, 2012. On December 21, 2012, the Company consummated the Public Offering and received proceeds (net of underwriter's discount of \$720,000 and offering costs of \$718,809) of \$38,561,191. The Company also received \$3,375,000 from the issuance of 4,500,000 warrants ("Placement Warrants") in a private placement (the "Private Placement") and \$2,720 from the issuance of 136,000 of its callable Class A Shares in a private placement (the "Underwriter Placement").

The Company's management has broad discretion with respect to the specific application of the net proceeds of the Public Offering, the Private Placement and the Underwriter Placement, although substantially all of the net proceeds are intended to be applied generally toward consummating an Acquisition Transaction. There is no assurance that the Company will be able to affect an Acquisition Transaction successfully. Upon the closing of the Public Offering, \$41,600,000 (\$10.40 per share sold in the Public Offering), including the proceeds of the Private Placement and the Underwriter Placement, was placed in and continues to be held in a trust account (the "Trust Account") and is invested in U.S. government treasury bills having a maturity of 180 days or less or in money market funds meeting certain conditions under Rule 2a-7 promulgated under the Investment Company Act of 1940, as amended, that invest solely in U.S. Treasuries until the earlier of the consummation of the Company's initial Acquisition Transaction and the Company's failure to consummate an Acquisition Transaction within the prescribed time.

CIS Acquisition Ltd.  
(A Development Stage Company)

Notes to Financial Statements

## **1. Organization, Plan of Business Operations, Liquidity and Going Concern, continued**

### **Organization and Plan of Business Operations, continued**

Placing funds in the Trust Account may not protect those funds from third party claims against the Company. Although the Company will seek to have all vendors, service providers, prospective target businesses or other entities it engages, execute agreements with the Company waiving any claim of any kind in or to any monies held in the Trust Account, there is no guarantee that such persons will execute such agreements. If the Company is unable to complete an Acquisition Transaction and is forced to dissolve and liquidate, our founders, by agreement, will jointly and severally indemnify the Company for all claims of contracted parties, to the extent the Company fails to obtain valid and enforceable waivers from such parties. Under these circumstances, the Company's board of directors would have a fiduciary obligation to the Company's shareholders to bring a claim against our founders to enforce their indemnification obligations. The Company has questioned our founders on their financial net worth and reviewed their financial information and believes they will be able to satisfy any indemnification obligations that may arise, although there can be no assurance of this. Our founders are under no obligation to us to preserve their assets or provide the Company with information regarding changes in their ability to satisfy these obligations.

The Company's units are listed on the Nasdaq Capital Markets ("Nasdaq"). Pursuant to the Nasdaq listing rules, the target business or businesses that the Company acquires must collectively have a fair market value equal to at least 80% of the balance of the funds in the Trust Account (less taxes payable) at the time of the execution of a definitive agreement for its initial Acquisition Transaction, although the Company may acquire a target business whose fair value significantly exceeds 80% of the Trust Account balance.

The Company, after signing a definitive agreement for the acquisition of a target business, is required to provide shareholders who acquired shares in the Public Offering ("Public Shareholders") with the opportunity to redeem their public shares for a pro rata share of the Trust Account by means of a tender offer (or it may have the option of conducting redemptions in conjunction with a proxy solicitation pursuant to the proxy rules if the Company is no longer an FPI). Each Public Stockholder will be entitled to receive a full pro rata portion of the amount then in the Trust Account (\$10.40 per share, plus any pro rata interest earned on the funds held in the Trust Account and not previously released to the Company or necessary to pay its taxes). The Company will consummate an initial Acquisition Transaction only if holders of no more than 87.5% of the public shares elect to convert (in case of a shareholder meeting) or sell their shares to the Company (in the case of a tender offer) and, solely if the Company seeks shareholder approval, a majority of the outstanding shares of a common shares voted are voted in favor of the Acquisition Transaction.

The Company is not required to obtain shareholder approval for the Acquisition Transaction, unless the nature of the acquisition would require such approval under applicable British Virgin Islands law. Public Shareholders will be entitled to redeem or will have their shares automatically redeemed for cash equal to the pro rata portion of the Trust Account in connection with the Acquisition Transaction, regardless of how it is structured. The manner in which Public Shareholders may redeem their shares or will have their shares automatically redeemed will depend on one of the following structures of the transaction:

Pre-acquisition tender offer: Prior to the consummation of an Acquisition Transaction, a tender offer would be initiated for all outstanding callable Class A Shares at a price equal to a pro rata share of the Trust Account. Public Shareholders will be entitled to tender all or a portion of their callable Class A Shares. However, the Company's founders would not be eligible to tender any shares they own in such tender offer.

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CIS Acquisition Ltd.  
(A Development Stage Company)

Notes to Financial Statements

## **1. Organization, Plan of Business Operations, Liquidity and Going Concern, continued**

### **Organization and Plan of Business Operations, continued**

Post-acquisition tender offer: A Report of Foreign Private Issuer would be filed on Form 6-K with the SEC disclosing that the Company has entered into a definitive acquisition transaction agreement and intends to consummate the Acquisition Transaction without shareholder vote or a pre-acquisition tender offer. Prior to the consummation of the Acquisition Transaction, the Company shall seek to have certain Class A shareholders (accredited investors who own 5% or more of shares) elect to convert all of their callable Class A Shares into Class C Shares on a one-for-one basis, with any remaining callable Class A Shares automatically converting to callable Class B Shares immediately following consummation of the Acquisition Transaction. After filing, the Acquisition Transaction will be completed upon satisfaction of all closing conditions and, within 30 days of the closing, the Company will commence a tender offer for all outstanding callable Class B Shares. Public Shareholders will be entitled to tender all or a portion of their callable Class B Shares. The Class C Shares are not eligible to participate in any post-acquisition tender offer. In case of (i) failure to commence the issuer tender offer within 30 days of consummation of the Acquisition Transaction, (ii) failure to complete the issuer tender offer within 6 months, or (iii) failure to complete the issuer tender offer within 21 months of the consummation of the Public Offering, then within 5 business days thereafter, the Company will automatically liquidate the Trust Account and release a pro rata portion of the Trust Account to Public Shareholders of Class B Shares. If the Company is no longer an FPI and shareholder approval of the transaction is required by British Virgin Islands law or the NASDAQ Capital Market or the Company decides to obtain shareholder approval for business reasons, the Company will:

- conduct the redemptions in conjunction with a proxy solicitation pursuant to Regulation 14A of the Exchange Act, which regulates the solicitation of proxies, and not pursuant to the tender offer rules, and

- file proxy materials with the SEC.

The Company will consummate an Acquisition Transaction only if holders of no more than 87.5% of the shares sold in the Proposed Offering exercise their redemption rights.

The Company has until June 21, 2014 to complete the Acquisition Transaction. If the Company has an executed letter of intent, agreement in principal or definitive agreement with respect to an Acquisition Transaction prior to June 21,



2014, the time period will be automatically extended to September 21, 2014 if an initial filing with the SEC of a tender offer, proxy, or registration statement is made, but the Acquisition Transaction is not completed by June 21, 2014.

If the Company is unable to complete an Acquisition Transaction within the allotted time, the Company will automatically dissolve and as promptly as practicable liquidate the Trust Account and release only to Public Shareholders a pro rata share of the Trust Account (initially \$10.40 per share), plus any remaining net assets. If the Company elects to effect a post-acquisition tender offer and complete an Acquisition Transaction prior to such time period, but has not completed a post-acquisition tender offer within the stated period, the Company will not be required to liquidate and wind up its affairs; however, the release of the funds in the case of a post-acquisition tender offer will be conditioned upon completion of such tender offer. The founders and holders of Underwriter Shares (defined below) have agreed to waive the right to participate in any distribution from the Trust Account, but not with respect to any units or callable Class A Shares they acquired in the Public Offering or acquire in the aftermarket.

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CIS Acquisition Ltd.  
(A Development Stage Company)

Notes to Financial Statements

## **1. Organization, Plan of Business Operations, Liquidity and Going Concern, continued**

### **Liquidity and Going Concern**

The Company anticipates that in order to fund its working capital requirements, the Company will need to use all of the remaining funds not held in trust, the interest earned on the funds held in the trust account, as well as enter into contingent fee arrangements with its vendors. The Company may need to raise additional capital through additional loans or additional investments from its founders, officers, directors, or third parties. None of the founders, officers or directors is under any obligation to advance funds to, or to invest in, the Company. Accordingly, the Company may not be able to obtain additional financing. If the Company is unable to raise additional capital, it may be required to take additional measures to conserve liquidity, which could include, but not necessarily be limited to, curtailing operations, suspending the pursuit of its business plan, and controlling overhead expenses. The Company cannot provide any assurance that new financing will be available to it on commercially acceptable terms, if at all. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of these uncertainties.

## **2. Public Offering and Private Placement**

In connection with the Public Offering, on December 21, 2012, the Company sold 4,000,000 Units at \$10.00 per unit ("Units") generating gross proceeds of \$40,000,000. Each Unit consists of one callable Class A Share, \$0.0001 par value, and one redeemable warrant (each a "Warrant") to purchase one ordinary share of the Company. Each Warrant entitles the holder to purchase from the Company one ordinary share 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 Warrants are earlier redeemed.

The Warrants may be redeemed by the Company at a price of \$0.01 per Warrant in whole but not in part upon 30 days prior written notice after the 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 day 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 Warrants, holders of Warrants may elect to exercise them on a cashless basis by paying the exercise price by surrendering their 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 Warrants and the “fair market value” (defined below) 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 Warrant notice is sent to the warrant agent. The Company would not receive additional proceeds to the extent the redeemable warrants are exercised on a cashless basis.

The callable Class A Shares and Warrants began separate trading on March 18, 2013. The callable Class A Shares will continue to trade until the Acquisition Transaction has been completed, at which time they will either: (i) automatically be consolidated with all ordinary shares into one series, if redemption rights were granted prior to, or concurrently with, the completion of the Acquisition Transaction; or (ii) automatically separate from the units and convert to callable Class B Shares, if the Acquisition Transaction is completed prior to a post-acquisition tender offer. After the post-acquisition tender offer, the callable Class B Shares will be consolidated with other outstanding ordinary shares. Upon consummation of the Public Offering, the ordinary shares purchased by the founders were exchanged for Class A Shares (Note 6). Such shares will not be redeemable, will be placed in escrow and will not be released until December 18, 2014.

CIS Acquisition Ltd.

(A Development Stage Company)

Notes to Financial Statements

## 2. Public Offering and Private Placement, continued

The Company sold to Chardan Capital Markets, LLC and its designees (the “Underwriter”), for an aggregate of \$100, an option to purchase 280,000 units at an exercise price of \$12.00 per unit, which is comprised of 280,000 ordinary shares and warrants to purchase 280,000 ordinary shares. The Underwriter’s unit purchase option will be exercisable at any time, in whole or in part, from the later of (i) the consolidation of each series of the Company’s ordinary shares into one class of ordinary shares, or (ii) June 18, 2013, and expire on the earlier of December 18, 2017 and the day immediately prior to the day on which the Company has been dissolved. The Company has accounted for the fair value of the unit purchase option, inclusive of the receipt of \$100 cash payment, as an expense of the Public Offering resulting in a charge directly to shareholders’ equity. The Company estimated that the fair value of this unit purchase option was approximately \$968,876 (or \$3.46 per unit) using a Black-Scholes option-pricing model. The fair value of the unit purchase option granted to the underwriter was estimated as of the date of grant using the following assumptions: (1) expected volatility of 46%, (2) risk-free interest rate of 0.76% and (3) expected life of five years. The Company has no obligation to net cash settle the exercise of the unit purchase option or underlying Warrants.

In connection with the Underwriter Placement, on December 21, 2012, the Company sold to the underwriters of the Public Offering, including Maxim Group LLC, the qualified independent underwriter, for an aggregate of \$2,720, an aggregate of 136,000 Class A Shares (the “Underwriter Shares”). Such shares are not redeemable, have been placed in escrow and will not be released until December 18, 2014. Additionally, the underwriters have agreed to waive their rights to participate in any distribution from the Trust Account. The Company accounted for the fair value of the Underwriter Shares, inclusive of the receipt of \$2,720 cash payment, as an expense of the Public Offering resulting in a charge directly to shareholders’ equity. The Company estimates that the fair value of these shares was approximately \$1,360,000 (\$10.00 per share).

In connection with the Private Placement, on December 21, 2012, the founders and certain of their designees purchased 4,500,000 warrants (the “Placement Warrants”) at a price of \$0.75 per warrant for an aggregate purchase price of \$3,375,000. The proceeds from the sale of the Placement Warrants are held in the Trust Account pending completion of the Acquisition Transaction. The Placement Warrants are identical to the 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, their designees, or their affiliates. Notwithstanding the foregoing, if the Placement Warrants

are held by 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 Warrants included in the units being sold in the Public Offering.

The founders have agreed, subject to certain exceptions below, not to sell, assign or otherwise transfer any of their Placement Warrants until the consummation of the Acquisition Transaction or the completion of a post-acquisition tender offer, as the case may be. Prior to the consummation of an Acquisition Transaction or the completion of a post-acquisition tender offer, as the case may be, the Placement Warrants may only be transferred (i) by gift to an affiliate or a member of the holder's immediate family (or a member of the immediate family of its officers or directors) or to a trust or other entity, the beneficiary of which is the holder (or one of its officers or directors or a member of their respective immediate families), (ii) by virtue of the laws of descent and distribution upon death of any holder, or (iii) pursuant to a qualified domestic relations order; provided, however, that as relates to the Placement Warrants, any such transfers may be implemented only upon the respective transferee's written agreement to be bound by the terms and conditions of the insider letter agreement executed by the transferring holder.

### **3. Summary of Significant Accounting Policies**

#### **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 balance sheet and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates include the value of the warrants and the option sold to the Underwriter.

CIS Acquisition Ltd.  
(A Development Stage Company)

Notes to Financial Statements

### **3. Summary of Significant Accounting Policies, continued**

#### **Loss Per Share**

Basic loss per share is computed by dividing net loss by the weighted-average number of ordinary or Class A shares, as applicable, outstanding during the period. Class A shares subject to possible redemption of 3,500,000 and 0 shares as of October 31, 2013 and 2012, respectively, have been excluded from the calculation of basic loss per share since such shares, if redeemed, only participate in their pro rata share of the trust earnings. Weighted average shares for the year ended October 31, 2013 and for the period November 28, 2011 (inception) through October 31, 2012 were reduced for the effect of an aggregate 90,000 Class A shares that were forfeited on March 18, 2013, the date upon which the underwriters' over-allotment option expired. Loss per share assuming dilution would give effect to the dilutive underwriter's purchase option, warrants, and other potential ordinary shares outstanding during the period. The Company has not considered the effect of warrants to purchase 8,500,000 ordinary shares and the underwriter's option to purchase 280,000 Units in the calculation of diluted loss per share, since the exercise of the warrants and the option is contingent upon the occurrence of future events.

#### **Cash and Cash Equivalents**

Cash: The Company maintains its cash with high credit quality financial institutions. At times, the Company's cash and cash equivalents may be uninsured or in deposit accounts that exceed insured amounts. Accordingly, the Company is subject to the risk of failure of the financial institutions where it maintains its cash deposits. In September, 2013, approximately \$55,000 was wired from the Company's former operating bank account pursuant to unauthorized wire instructions. As of October 31, 2013, the company was seeking recovery of the stolen funds from the banking institution. On March 4, 2014, the Company received \$50,000 as a settlement from the bank in connection with the unauthorized wire theft.

Cash Equivalents: The Company considers all short-term investments with a maturity of three months or less when purchased to be cash equivalents.

#### **Restricted Investments and Cash Equivalents Held in Trust Account**

The amounts held in the Trust Account represent substantially all of the proceeds of the Public Offering, the Private Placement and the Underwriter Placement and are classified as restricted assets since such amounts can only be used by the Company in connection with the consummation of an Acquisition Transaction.

As of October 31, 2013, investment securities held in the Trust Account consisted of \$41,614,296 in a United States Treasury Bill, which matures on February 6, 2014 and \$325 of cash equivalents. The Company classifies its United States Treasury securities as held-to-maturity in accordance with ASC 320 "Investments – Debt and Equity Securities". Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. Held-to-maturity treasury securities are recorded at amortized cost on the accompanying balance sheet and are adjusted for the accretion of discounts.

A decline in the market value of held-to-maturity securities below cost that is deemed to be other than temporary, results in an impairment that reduces the carrying costs to such securities' fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other than temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective-interest method. Such amortization and accretion is included in the "interest income" line item in the statements of operations. Interest income is recognized when earned.

CIS Acquisition Ltd.  
(A Development Stage Company)

Notes to Financial Statements

### 3. Summary of Significant Accounting Policies, continued

#### Restricted Investments and Cash Equivalents Held in Trust Account, continued

The carrying amount, gross unrealized holding gains and the fair value of held-to-maturity securities at October 31, 2013 are as follows:

	Carrying Amount	Gross Unrealized Holding Loss	Fair Value
Held-to-maturity:			
U.S. Treasury Bills	\$41,614,621	\$ 190	\$41,614,431

#### Income Tax

The Company complies with FASB ASC 740, "Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and 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. FASB ASC 740 also establishes recognition requirements for the accounting for uncertainty in income taxes. The Company has identified the British Virgin Islands as its only major tax jurisdiction. There were no unrecognized tax benefits as of October 31, 2013. Since the Company was incorporated on November 28, 2011, the evaluation was performed for the tax years ended October 31, 2013 and 2012, which will be the only periods subject to examination. The section prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at October 31, 2013. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

#### Fair Value Measurements



The carrying amounts of cash, cash equivalents, restricted cash, and accrued expenses and other current liabilities, approximate fair value due to the short-term nature of these instruments.

Fair value is defined as an exit price, representing the amount that would be received upon the sale of an asset or payment to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

- Level 1. Quoted prices in active markets for identical assets or liabilities.
- Level 2. Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3. Significant unobservable inputs that cannot be corroborated by market data.

CIS Acquisition Ltd.

(A Development Stage Company)

Notes to Financial Statements

### 3. Summary of Significant Accounting Policies, continued

#### Fair Value Measurements, continued

The assets or liability's fair value measurement within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. The following table provides a summary of the assets that are measured at fair value on a recurring basis.

	Consolidated Balance Sheet	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Quoted Prices for Similar Assets or Liabilities in Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Liabilities:				
October 31, 2013	\$ 3,230,000	\$ -	\$ -	\$ 3,230,000

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis:

	For the Years Ended October 31,	
	2013	2012
Beginning balance	\$ -	\$ -
Aggregate fair value of warrant liability upon issuance	-	-
Change in fair value of warrant liability – recorded after the balance sheet dated December 21, 2012, but during the year ended October 31, 2013 (as explained below)	3,230,000	-

Ending balance	\$ 3,230,000	\$ -
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**Revised Prior Period Amounts**

While preparing its balance sheet as of April 30, 2013, the Company identified and corrected an error related to the accounting for the Company's outstanding warrants. The amount of the error was approximately \$3,570,000 as of December 21, 2012. The Company determined that its outstanding warrants should have been accounted as a liability recorded at fair value and that this liability should be re-measured at each reporting period with changes in fair value being reflected in the statement of operations. The determination of this accounting methodology was made as a result of potential adjustments to the exercise price of the warrants in certain circumstances as described in the warrant agreements which do not meet the criteria for equity treatment described in ASC 815-45-7D.

In accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin Nos. 99 and 108 ("SAB 99" and "SAB 108"), the Company has evaluated these errors, based on an analysis of quantitative and qualitative factors, as to whether they were material to each of the prior reporting periods affected and if amendments of previously filed Reports of Foreign Private Issuer on Form 6-K with the SEC are required. The Company has determined that though quantitatively and qualitatively material to the previously furnished balance sheet dated December 21, 2012 on Form 6-K filed with the SEC on December 28, 2012, the Company believes the recording of the warrants as liability instruments would not have influenced an investor's decision making process and has determined to record the liability in the year ended October 31, 2013, as opposed to a restatement and reissuance of the previously furnished balance sheet.

CIS Acquisition Ltd.

(A Development Stage Company)

Notes to Financial Statements

### **3. Summary of Significant Accounting Policies, continued**

#### **Fair Value Measurements, continued**

Level 3 financial liabilities consist of the derivative liabilities for which there is no current market such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the derivative liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's Chief Financial Officer determines its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's Chief Financial Officer with support from the Company's consultants.

The Company accounts for the 4,000,000 warrants issued in connection with the Public Offering, and the 4,500,000 warrants issued in connection with the Private Placement in accordance with the guidance contained in ASC 815-40-15-7D whereby under that provision they do not meet the criteria for equity treatment and must be recorded as a liability. Accordingly, the Company classifies the warrant instrument as a liability at its fair value. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's statement of operations.

The fair value of the warrant liability was determined by the Company using the Binomial Lattice pricing model. This model is dependent upon several variables such as the instrument's expected term, expected strike price, expected risk-free interest rate over the expected instrument term, the expected dividend yield rate over the expected instrument term, expected volatility of the Company's share price over the expected term, expected time to complete an acquisition and estimated probability of completing a successful acquisition. The expected term represents the period of time that the instruments granted are expected to be outstanding. The expected strike price is based upon a weighted average probability analysis of the strike price changes expected during the term as a result of the down round protection. The risk-free rates are based on U.S. Treasury securities with similar maturities as the expected

terms of the options at the date of valuation. Expected dividend yield is based on historical trends. The Company measures volatility using a blended weighted average of the volatility rates for a number of similar publicly-traded companies along with the Company's historical volatility.

A significant decrease in the volatility or a significant decrease in the Company's share price, in isolation, would result in a significantly lower fair value measurement. Changes in the values of the derivative liabilities are recorded in change in fair value of derivative liabilities within other expense (income) on the Company's statements of operations.

As of October 31, 2013, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

The inputs to the model were as follows:

	December 21, 2013		October 31, 2013	
Dividend yield (per share)	0	%	0	%
Risk-free interest rate:	0.74	%	1.3	%
Expected term	5.0 yrs.		4.13 yrs.	
Expected volatility rate	21.41	%	18.1	%
Assumed acquisition date	August 18, 2014		August 18, 2014	
Estimated probability of acquisition success	61.3	%	61.2	%

CIS Acquisition Ltd.

(A Development Stage Company)

Notes to Financial Statements

### **3. Summary of Significant Accounting Policies, continued**

#### **Concentration of Credit Risk**

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 insured amounts. Accordingly, the Company is subject to the risk of failure of the financial institutions where it maintains its cash deposits. See discussion under Cash and Cash Equivalents regarding a theft against one of the Company's former bank accounts.

#### **Ordinary Shares Subject to Possible Conversion**

The ordinary shares as part of the Units (the "Units") issued in the Public Offering, contained a conversion feature which is subject to redemption. In accordance with ASC 480, "Distinguishing Liabilities from Equity" ("ASC 480"), redemption provisions not solely within the control of the Company require the security to be classified outside of permanent equity.

Accordingly, 3,500,000 of the 4,000,000 public shares were classified outside of permanent equity at redemption value because the redemption rights are subject to the occurrence of certain events that are outside of the Company's control. The redemption value at October 31, 2013 was equal to approximately the pro rata share of the aggregate amount then on deposit in the Trust Account (\$10.40 per share at October 31, 2013).

#### **Recent Accounting Pronouncements**

The Company does not believe that any recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying financial statements.

**4.**

**Commitments**

The Company entered into an agreement with the underwriters (the “Underwriting Agreement”). Pursuant to the Underwriting Agreement, the Company paid an underwriting discount of 1.8% of the gross proceeds of the Public Offering, or \$720,000 on December 21, 2012.

The holders of the founders’ shares, as well as the holders of the Placement Warrants (and underlying securities) and Underwriter Shares, are entitled to registration rights pursuant to a registration rights agreement signed on December 18, 2012. The holders of the majority of these securities are entitled to make up to two demands that the Company register such securities. The holders of the majority of the founders’ shares and Underwriter Shares can elect to exercise these registration rights at any time commencing three months prior to the date on which the founders’ shares are to be released from escrow. The holders of a majority of the Placement Warrants (or underlying securities) can elect to exercise these registration rights at any time after the Company consummates an Acquisition Transaction or completes a post-acquisition tender offer, as the case may be. In addition, the holders have certain “piggy-back” registration rights with respect to registration statements filed subsequent to the consummation of an Acquisition Transaction or post-acquisition tender offer. The Company will bear the expenses incurred in connection with the filing of any such registration statements.

CIS Acquisition Ltd.

(A Development Stage Company)

Notes to Financial Statements

## **5. Related Party Transactions**

The Company issued an \$180,155 unsecured promissory note to Intercarbo AG on February 13, 2012. Additional unsecured promissory notes in the amounts of \$52,000 and \$170,000 were issued on April 30, 2012 and July 16, 2012, respectively. The notes were non-interest bearing and pursuant to their terms were to be repaid promptly after the consummation of the Public Offering. On December 24, 2012, the Company repaid \$387,155 representing the aggregate balance outstanding. Intercarbo AG is an affiliate of Mr. Taras Vazhnov, a director of the Company.

The Company agreed to pay to CIS Acquisition Holding Co. Ltd., an affiliate of Anatoly Danilitskiy, our Chairman and Chief Executive Officer, and Taras Vazhnov, our director, a total of \$7,500 per month for office space, administrative services and secretarial support for a period commencing on December 18, 2012 and ending on the earlier of the consummation of an Acquisition Transaction or the Company's liquidation. Such fees have been paid as incurred only out of interest earned on the trust account or assets not held in trust, if any. If there are insufficient funds from interest earned on the trust account or from assets not held in trust, then the obligation to CIS Acquisition Holding Co. Ltd. will be accrued and not paid. During the year ending October 31, 2013, for the period February 24, 2011(inception) through October 31, 2012 and for the period February 24, 2011(inception) through October 31, 2013, the Company has incurred \$75,000, \$0 and \$75,000, respectively, for these office space expenses to CIS Acquisition Holding Co. Ltd.

## **6. Shareholders' Equity**

### **Preferred Shares:**

The Company's Amended and Restated Memorandum of Association authorizes the issuance of up to 5,000,000 preferred shares each with such designation, rights and preferences as may be determined by the board of directors. No preferred shares are currently issued or outstanding.

### **Ordinary Shares:**



The Company's Amended and Restated Memorandum of Association authorizes the issuance of up to 75,000,000 ordinary shares. No ordinary shares are currently issued or outstanding.

*Class A Shares:*

The Company's Amended and Restated Memorandum of Association authorizes the issuance of up to 25,000,000 Class A shares. As of April 30, 2013, 1,636,000 Class A shares were issued and outstanding, excluding 3,500,000 Class A shares subject to possible redemption or tender.

*Class B Shares:*

The Company's Amended and Restated Memorandum of Association authorizes the issuance of up to 25,000,000 Class B Shares. No Class B shares are currently issued or outstanding.

CIS Acquisition Ltd.

(A Development Stage Company)

Notes to Financial Statements

**6. Shareholders' Equity, continued**

**Ordinary Shares, continued**

*Class C Shares:*

The Company's Amended and Restated Memorandum of Association authorizes the issuance of up to 25,000,000 Class C Shares. No Class C shares are currently issued or outstanding.

On November 28, 2011, the Company issued 100 ordinary shares to Kyle Shostak, the Company's initial shareholder and founder, for a consideration of \$0.01. On February 13, 2012, the Company issued 2,804,562 ordinary shares to CIS Acquisition Holding Co. Ltd. and 70,338 ordinary shares to Mr. Shostak for an aggregate consideration of \$24,999.99, or approximately \$0.0087 per share. On October 18, 2012, the founders contributed an aggregate of 1,437,500 shares of the Company's ordinary shares to the Company's capital at no cost to the Company and the Company subsequently cancelled such shares. On November 30, 2012, the founders contributed an aggregate of 75,000 shares of the Company's ordinary shares to the Company's capital at no cost to the Company and the Company subsequently cancelled such shares. On December 14, 2012, our founders contributed an aggregate of 272,500 shares to the Company's capital at no cost to the Company and the Company subsequently cancelled such shares. Immediately prior to the consummation of the Public Offering, the founders exchanged all 1,090,000 ordinary shares for their respective portion of 1,090,000 newly-issued Class A Shares. The Company redeemed 90,000 of the founders' Class A shares for no consideration because the underwriter's over-allotment option expired unexercised on March 18, 2013 so that the Company's founders own 20% of the issued and outstanding Class A shares (not including the Underwriter Shares) after the Public Offering. Additionally, the founders and the underwriters agreed not to redeem or tender the Class A Shares that they hold. The founders' shares and the Underwriter Shares will automatically convert to Class C Shares or ordinary shares, as applicable, upon consummation of the Acquisition Transaction.

**7. Subsequent Events**

The Company evaluated events that have occurred after the balance sheet date of October 31, 2013 through the date which the financials were available to be issued. Based upon this review, other than as already disclosed within these

financial statements in Note 3 – Summary of Significant Accounting Policies, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the financial statements.

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**CIS Acquisition Ltd.****BALANCE SHEETS**

	April 30, 2014 (unaudited)	October 31, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 12,648	\$ 135,659
Prepaid expenses and other current assets	36,333	69,000
Total current assets	48,981	204,659
Restricted investments and cash equivalents held in Trust Account	41,622,401	41,614,621
Total assets	\$ 41,671,382	\$ 41,819,280
<b>LIABILITIES, REDEEMABLE SHARES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accrued expenses	\$ 191,674	\$ 59,440
Loan payable - related party	30,000	-
Total current liabilities	221,674	59,440
Warrant liability	3,185,000	3,230,000
Total liabilities	3,406,674	3,289,440
Commitments and contingencies		
Class A shares, subject to possible redemption or tender, 3,500,000 shares at redemption value	36,400,000	36,400,000
Shareholders' Equity		
Preferred shares, \$0.0001 par value, 5,000,000 shares authorized; none issued or outstanding		
Class A shares, \$0.0001 par value, 25,000,000 shares authorized; 1,636,000 shares issued and outstanding (excluding 3,500,000 Class A shares subject to possible redemption or tender)	164	164
Class B shares, \$0.0001 par value, 25,000,000 shares authorized; none issued or outstanding	-	-
Class C shares, \$0.0001 par value, 25,000,000 shares authorized; none issued or outstanding	-	-
Ordinary shares \$0.0001 per share; 75,000,000 shares authorized; none issued or outstanding	-	-
Additional paid in capital	5,563,747	5,563,747
Accumulated deficit	(3,699,203 )	(3,434,071 )
Total shareholders' equity	1,864,708	2,129,840
Total liabilities, redeemable common shares and shareholders' equity	\$ 41,671,382	\$ 41,819,280

The accompanying notes are an integral part of these financial statements.

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**CIS Acquisition Ltd.****STATEMENTS OF OPERATIONS****(unaudited)**

	For the Six Months Ended April 30,	
	2014	2013
Operating Expenses:		
Legal and professional fees	\$ 234,406	\$ 23,332
Office expense - related party	45,000	30,000
General and administrative expenses	38,506	26,780
Loss from operations	(317,912 )	(80,112 )
Other Income (Expense):		
Change in fair value of warrants	45,000	(3,995,000 )
Interest income	7,780	6,981
Net loss	\$ (265,132 )	\$ (4,068,131 )
Weighted average shares outstanding, basic and diluted <sup>(1)</sup>	1,636,000	1,460,309
Basic and diluted net loss per common share	\$ (0.16 )	\$ (2.79 )

(1) Excludes an aggregate of 90,000 ordinary shares held by the founders that were subject to redemption to the extent the underwriters' over-allotment option was not exercised in full. Such shares became Class A Shares upon closing of the Public Offering and were redeemed for no consideration on March 18, 2013.

The accompanying notes are an integral part of these financial statements.

**CIS Acquisition Ltd.****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****For the Six Months Ended April 30, 2014**

	Class A Shares		Additional	Accumulated	Total
	Shares	Amount	Paid-in	Deficit	Shareholders'
			Capital		Equity
Balance, November 1, 2013	1,636,000	\$ 164	\$5,563,747	\$ (3,434,071 )	\$ 2,129,840
Net loss for the six months ended April 30, 2014	-	-	-	(265,132 )	(265,132 )
Balance, April 30, 2014 (unaudited) <sup>(1)</sup>	1,636,000	\$ 164	\$5,563,747	\$ (3,699,203 )	\$ 1,864,708

(1) A total of 3,500,000 shares of Class A Shares were subject to redemption or tender at October 31, 2014.

The accompanying notes are an integral part of these financial statements.

**CIS Acquisition Ltd.****STATEMENTS OF CASH FLOWS****(unaudited)**

	For the Six Months Ended April 30,	
	2014	2013
Cash flows from operating activities:		
Net Loss	\$ (265,132	) \$ (4,068,131
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in fair value of warrant liability	(45,000	) 3,995,000
Accrued interest	(7,781	) (6,981
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	32,667	-
Accrued expenses	132,235	39,682
Net cash used in operating activities	(153,011	) (40,430
Cash flows from investing activities:		
Investment in cash and cash equivalent held in Trust Account	-	(41,600,000
Purchase of restricted investments and cash equivalents held in Trust Account	(41,617,100	) -
Proceeds from maturity of restricted investments and cash equivalents held in Trust Account	41,617,100	-
Net cash used in investing activities	-	(41,600,000
Cash flows from financing activities:		
Proceeds from Public Offering, net of offering costs	-	39,016,600
Proceeds from note payable to an affiliate	30,000	65,000
Repayment of note payable	-	(387,155
Payment of deferred offering costs	-	(145,565
Proceeds from Warrant Offering	-	3,375,000
Proceeds from Sale of Class A Shares to Underwriter	-	2,720
Net cash provided by financing activities	30,000	41,926,600
Net (decrease) increase in cash and cash equivalents	(123,011	) 286,170
Cash and cash equivalents - beginning	135,659	32,438
Cash and cash equivalents - ending	\$ 12,648	\$ 318,608

The accompanying notes are an integral part of these financial statements.



**CIS Acquisition Ltd.**  
**Notes to Unaudited Interim Financial Statements**  
**For the Six Months Ended April 30, 2014**

**1. Organization, Plan of Business Operations, Liquidity and Going Concern**

**Organization and Plan of Business Operations**

CIS Acquisition Ltd. (“CIS” or the “Company”) was formed on November 28, 2011 under the laws of the British Virgin Islands as an innovated public acquisition company (“IPAC”). The Company was formed to acquire, through a merger, share exchange, asset acquisition, share purchase, reorganization, exchangeable share transaction or other similar business transaction, one or more operating businesses or assets (“Acquisition Transaction”). An IPAC is a blank check company that permits the Company to return funds from a trust account to redeeming shareholders after the completion of an Acquisition Transaction. Although the Company is not limited to a particular geographic region or industry, it intends to focus on operating businesses with primary operations in Russia and Eastern Europe.

As of April 30, 2014, the Company had not yet commenced operations. All activity through April 30, 2014 relates to the Company’s formation, initial public offering of its securities and the identification and investigation of a suitable operating business or assets with which to complete an Acquisition Transaction.

On June 16, 2014, a Stock Purchase Agreement (the “Red Rock Agreement”) was entered into by and among CIS, Red Rock Holdings Group, LLC, a Delaware Limited Liability company (“Red Rock” or the “Target”), and Foster Jennings, Inc., Red Rock’s sole member (the “Member”). Since the Company entered into the Agreement on June 16, 2014, and filed with the SEC a tender offer on June 23, 2014, the time period for closing the Acquisition Transaction was automatically extended to September 21, 2014. Red Rock defaulted on its obligation under the Red Rock Agreement. On September 16, 2014, CIS terminated the Red Rock Agreement as it did not provide audited financial statements.

On September 16, 2014, a Stock Purchase Agreement (the “Agreement”) was entered into by and among CIS, Delta Advanced Materials Limited, a Hong Kong company (“Delta”) and Elite Ride Limited, a British Virgin Islands company (“Delta’s Parent”) and the Elite Ride Limited Shareholders (“Elite Shareholders”) (See Note 7 – Stock Purchase Agreement).

The accompanying unaudited financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP. In the opinion of

management, all adjustments (consisting of normal accruals) considered for a fair presentation have been included. Operating results for the six months ended April 30, 2014 are not necessarily indicative of the results that may be expected for the year ended October 31, 2014. For further information refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 20-F for the year ended October 31, 2013, filed with Securities and Exchange Commission on March 17, 2014.

The Company was required to determine if it was a foreign private issuer ("FPI") under Rule 3b4(d) of the Exchange Act, as of a date within 30 days of the filing of the Registration Statement with the SEC for the Public Offering. The Company determined it was an FPI prior to the filing of the Registration Statement. As an FPI, the Company will be required to comply with the tender offer rules in connection with its initial Acquisition Transaction. The Company is required to determine its status as an FPI on an ongoing basis for all subsequent fiscal years as of the last day of its most recently completed second fiscal quarter. Accordingly, for the year ended October 31, 2013, as of the last day of that period's most recently completed second quarter (April 30, 2013), the Company determined that it was an FPI. If the Company were to no longer qualify as an FPI (as set forth in Rule 3b4 of the Exchange Act), the Company would then become subject to the US domestic issuer rules as of the first day of its fiscal year following the determination date.

The registration statement for the Company's initial public offering ("Public Offering") was declared effective on December 18, 2012. On December 21, 2012, the Company consummated the Public Offering and received proceeds (net of underwriter's discount of \$720,000 and offering costs of \$718,809) of \$38,561,191. The Company also received \$3,375,000 from the issuance of 4,500,000 warrants ("Placement Warrants") in a private placement (the "Private Placement") and \$2,720 from the issuance of 136,000 of its callable Class A Shares in a private placement (the "Underwriter Placement").

CIS Acquisition Ltd.  
Notes to Unaudited Interim Financial Statements  
For the Six Months Ended April 30, 2014

## **1. Organization, Plan of Business Operations, Liquidity and Going Concern, continued**

### **Organization and Plan of Business Operations, continued**

The Company's management has broad discretion with respect to the specific application of the net proceeds of the Public Offering, the Private Placement and the Underwriter Placement, although substantially all of the net proceeds are intended to be applied generally toward consummating an Acquisition Transaction. There is no assurance that the Company will be able to affect an Acquisition Transaction successfully. Upon the closing of the Public Offering, \$41,600,000 (\$10.40 per share sold in the Public Offering), including the proceeds of the Private Placement and the Underwriter Placement, was placed in and continues to be held in a trust account (the "Trust Account") and is invested in U.S. government treasury bills having a maturity of 180 days or less or in money market funds meeting certain conditions under Rule 2a-7 promulgated under the Investment Company Act of 1940, as amended, that invest solely in U.S. Treasuries until the earlier of the consummation of the Company's initial Acquisition Transaction and the Company's failure to consummate an Acquisition Transaction within the prescribed time.

Placing funds in the Trust Account may not protect those funds from third party claims against the Company. Although the Company will seek to have all vendors, service providers, prospective target businesses or other entities it engages, execute agreements with the Company waiving any claim of any kind in or to any monies held in the Trust Account, there is no guarantee that such persons will execute such agreements. If the Company is unable to complete an Acquisition Transaction and is forced to dissolve and liquidate, our founders, by agreement, will jointly and severally indemnify the Company for all claims of contracted parties, to the extent the Company fails to obtain valid and enforceable waivers from such parties. Under these circumstances, the Company's board of directors would have a fiduciary obligation to the Company's shareholders to bring a claim against our founders to enforce their indemnification obligations. The Company has questioned our founders on their financial net worth and reviewed their financial information and believes they will be able to satisfy any indemnification obligations that may arise, although there can be no assurance of this. Our founders are under no obligation to us to preserve their assets or provide the Company with information regarding changes in their ability to satisfy these obligations.

The Company's units are listed on the Nasdaq Capital Markets ("Nasdaq"). Pursuant to the Nasdaq listing rules, the target business or businesses that the Company acquires must collectively have a fair market value equal to at least 80% of the balance of the funds in the Trust Account (less taxes payable) at the time of the execution of a definitive agreement for its initial Acquisition Transaction, although the Company may acquire a target business whose fair value significantly exceeds 80% of the Trust Account balance.

If an acquisition is not completed by September 21, 2014, CIS will be required to automatically liquidate the trust account and distribute a pro rata portion of the trust account (\$10.40 per share) to each holder of Callable Class B Ordinary Shares, and the Callable Class B Ordinary Shares will be canceled.

The Company is required to provide shareholders who acquired shares in the Public Offering that did not agree to convert their Series A ordinary shares into Series B ordinary shares (“Public Shareholders”) with the opportunity to redeem their public shares for a pro rata share of the Trust Account in connection with an Acquisition Transaction or, if an Acquisition Transaction is completed and a tender offer is not completed by September 21, 2014, liquidate the trust account to Series B shareholders on a pro rata basis. Each Public Shareholder will be entitled to receive a full pro rata portion of the amount then in the Trust Account (\$10.40 per share, plus any pro rata interest earned on the funds held in the Trust Account and not previously released to the Company or necessary to pay its taxes).

The Company is not required to obtain shareholder approval for the Acquisition Transaction, unless the nature of the acquisition would require such approval under applicable British Virgin Islands law. Public Shareholders will be entitled to redeem or will have their shares automatically redeemed for cash equal to the pro rata portion of the Trust Account in connection with the Acquisition Transaction, regardless of how it is structured. The manner in which Public Shareholders may redeem their shares or will have their shares automatically redeemed will depend on one of the following structures of the transaction:

Pre-acquisition tender offer: Prior to the consummation of an Acquisition Transaction, a tender offer would be initiated for all outstanding callable Class A Shares at a price equal to a pro rata share of the Trust Account. Public Shareholders will be entitled to tender all or a portion of their callable Class A Shares. However, the Company’s founders would not be eligible to tender any shares they own in such tender offer. Given the time remaining before the Company will be required to dissolve, the Company will not be able to close an Acquisition Transaction making use of a pre-acquisition tender offer.

CIS Acquisition Ltd.  
Notes to Unaudited Interim Financial Statements  
For the Six Months Ended April 30, 2014

## **1. Organization, Plan of Business Operations, Liquidity and Going Concern, continued**

### **Organization and Plan of Business Operations, continued**

Post-acquisition tender offer: A Report of Foreign Private Issuer would be filed on Form 6-K with the SEC disclosing that the Company has entered into a definitive acquisition transaction agreement and intends to consummate the Acquisition Transaction without shareholder vote or a pre-acquisition tender offer. Prior to the consummation of the Acquisition Transaction, the Company shall seek to have certain Class A shareholders (accredited investors who own 5% or more of shares) elect to convert all of their callable Class A Shares into Class C Shares on a one-for-one basis, with any remaining callable Class A Shares automatically converting to callable Class B Shares immediately following consummation of the Acquisition Transaction.

The Company will consummate an Acquisition Transaction only if holders of no more than 87.5% of the Public Shareholders are eligible to receive a pro-rata portion of the Trust Account post Acquisition Transaction. As the Company does not have sufficient time to complete a tender offer post Acquisition Transaction if an Acquisition Transaction is completed, the Trust Account will be liquidated on September 21, 2014.

The founders and holders of Underwriter Shares (defined below) have agreed to waive the right to participate in any distribution from the Trust Account, but not with respect to any units or callable Class A Shares they acquired in the Public Offering or acquire in the aftermarket.

### **Liquidity and Going Concern**

The Company anticipates that in order to fund its working capital requirements, the Company will need to use all of the remaining funds not held in trust, the interest earned on the funds held in the trust account, as well as enter into contingent fee arrangements with its vendors. The Company may need to raise additional capital through additional loans or additional investments from its founders, officers, directors, or third parties. None of the founders, officers or directors is under any obligation to advance funds to, or to invest in, the Company. Accordingly, the Company may not be able to obtain additional financing. If the Company is unable to raise additional capital, it may be required to take additional measures to conserve liquidity, which could include, but not necessarily be limited to, curtailing operations, suspending the pursuit of its business plan, and controlling overhead expenses. The Company cannot

provide any assurance that new financing will be available to it on commercially acceptable terms, if at all. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of these uncertainties.

## **2. Public Offering and Private Placement**

In connection with the Public Offering, on December 21, 2012, the Company sold 4,000,000 Units at \$10.00 per unit ("Units") generating gross proceeds of \$40,000,000. Each Unit consists of one callable Class A Share, \$0.0001 par value, and one redeemable warrant (each a "Warrant") to purchase one ordinary share of the Company. Each Warrant entitles the holder to purchase from the Company one ordinary share 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 Warrants are earlier redeemed.

The Warrants may be redeemed by the Company at a price of \$0.01 per Warrant in whole but not in part upon 30 days prior written notice after the 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 day 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 Warrants, holders of Warrants may elect to exercise them on a cashless basis by paying the exercise price by surrendering their 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 Warrants and the "fair market value" (defined below) 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 Warrant notice is sent to the warrant agent. The Company would not receive additional proceeds to the extent the redeemable warrants are exercised on a cashless basis.

CIS Acquisition Ltd.  
Notes to Unaudited Interim Financial Statements  
For the Six Months Ended April 30, 2014

**2. Public Offering and Private Placement,  
continued**

The callable Class A Shares and Warrants began separate trading on March 18, 2013. The callable Class A Shares will continue to trade until the Acquisition Transaction has been completed, at which time they will either: (i) automatically be consolidated with all ordinary shares into one series, if redemption rights were granted prior to, or concurrently with, the completion of the Acquisition Transaction; or (ii) automatically separate from the units and convert to callable Class B Shares, if the Acquisition Transaction is completed prior to a post-acquisition tender offer. After the post-acquisition tender offer, the callable Class B Shares will be consolidated with other outstanding ordinary shares. Upon consummation of the Public Offering, the ordinary shares purchased by the founders were exchanged for Class A Shares (Note 7). Such shares will not be redeemable, will be placed in escrow and will not be released until December 18, 2014.

The Company sold to Chardan Capital Markets, LLC and its designees (the “Underwriter”), for an aggregate of \$100, an option to purchase 280,000 units at an exercise price of \$12.00 per unit, which is comprised of 280,000 ordinary shares and warrants to purchase 280,000 ordinary shares. The Underwriter’s unit purchase option will be exercisable at any time, in whole or in part, from the later of (i) the consolidation of each series of the Company’s ordinary shares into one class of ordinary shares, or (ii) June 18, 2013, and expire on the earlier of December 18, 2017 and the day immediately prior to the day on which the Company has been dissolved. The Company has accounted for the fair value of the unit purchase option, inclusive of the receipt of \$100 cash payment, as an expense of the Public Offering resulting in a charge directly to shareholders’ equity. The Company estimated that the fair value of this unit purchase option was approximately \$968,876 (or \$3.46 per unit) using a Black-Scholes option-pricing model. The fair value of the unit purchase option granted to the underwriter was estimated as of the date of grant using the following assumptions: (1) expected volatility of 46%, (2) risk-free interest rate of 0.76% and (3) expected life of five years. The Company has no obligation to net cash settle the exercise of the unit purchase option or underlying Warrants.

In connection with the Underwriter Placement, on December 21, 2012, the Company sold to the underwriters of the Public Offering, including Maxim Group LLC, the qualified independent underwriter, for an aggregate of \$2,720, an aggregate of 136,000 Class A Shares (the “Underwriter Shares”). Such shares are not redeemable, have been placed in escrow and will not be released until December 18, 2014. Additionally, the underwriters have agreed to waive their rights to participate in any distribution from the Trust Account. The Company accounted for the fair value of the Underwriter Shares, inclusive of the receipt of \$2,720 cash payment, as an expense of the Public Offering resulting in a charge directly to shareholders’ equity. The Company estimated that the fair value of these shares was approximately \$1,360,000 (\$10.00 per share).

In connection with the Private Placement, on December 21, 2012, the founders and certain of their designees purchased 4,500,000 warrants (the "Placement Warrants") at a price of \$0.75 per warrant for an aggregate purchase price of \$3,375,000. The proceeds from the sale of the Placement Warrants are held in the Trust Account pending completion of the Acquisition Transaction. The Placement Warrants are identical to the 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, their designees, or their affiliates. Notwithstanding the foregoing, if the Placement Warrants are held by 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 Warrants included in the units being sold in the Public Offering.

The founders have agreed, subject to certain exceptions below, not to sell, assign or otherwise transfer any of their Placement Warrants until the consummation of the Acquisition Transaction or the completion of a post-acquisition tender offer, as the case may be. Prior to the consummation of an Acquisition Transaction or the completion of a post-acquisition tender offer, as the case may be, the Placement Warrants may only be transferred (i) by gift to an affiliate or a member of the holder's immediate family (or a member of the immediate family of its officers or directors) or to a trust or other entity, the beneficiary of which is the holder (or one of its officers or directors or a member of their respective immediate families), (ii) by virtue of the laws of descent and distribution upon death of any holder, or (iii) pursuant to a qualified domestic relations order; provided, however, that as relates to the Placement Warrants, any such transfers may be implemented only upon the respective transferee's written agreement to be bound by the terms and conditions of the insider letter agreement executed by the transferring holder.



CIS Acquisition Ltd.  
Notes to Unaudited Interim Financial Statements  
For the Six Months Ended April 30, 2014

### **3. Summary of Significant Accounting Policies**

#### **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 balance sheet and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The significant estimate is for the value of the warrants.

#### **Loss Per Share**

Basic loss per share is computed by dividing net loss by the weighted-average number of ordinary or Class A shares, as applicable, outstanding during the period. Class A shares subject to possible redemption of 3,500,000 shares as of April 30, 2014 and 2013 have been excluded from the calculation of basic loss per share since such shares, if redeemed, only participate in their pro rata share of the trust earnings. Loss per share assuming dilution would give effect to the dilutive underwriter's purchase option, warrants, and other potential ordinary shares outstanding during the period. The Company has not considered the effect of warrants to purchase 8,500,000 ordinary shares and the underwriter's option to purchase 280,000 Units in the calculation of diluted loss per share, since the exercise of the warrants and the option is contingent upon the occurrence of future events.

#### **Cash and Cash Equivalents**

Cash: The Company maintains its cash with high credit quality financial institutions. At times, the Company's cash and cash equivalents may be uninsured or in deposit accounts that exceed insured amounts. Accordingly, the Company is subject to the risk of failure of the financial institutions where it maintains its cash deposits. In September, 2013, approximately \$55,000 was wired from the Company's former operating bank account pursuant to unauthorized wire instructions. On March 4, 2014, the Company received \$50,000 as a settlement from the bank in connection with the unauthorized wire theft.

Cash Equivalents: The Company considers all short-term investments with a maturity of three months or less when purchased to be cash equivalents.

### **Restricted Investments and Cash Equivalents Held in Trust Account**

The amounts held in the Trust Account represent substantially all of the proceeds of the Public Offering, the Private Placement and the Underwriter Placement and are classified as restricted assets since such amounts can only be used by the Company in connection with the consummation of an Acquisition Transaction.

As of April 30, 2014, investment securities held in the Trust Account consisted of \$41,599,206 in a United States Treasury Bill, which matured on May 15, 2014 and \$22,401 of cash equivalents. The Company classifies its United States Treasury securities as held-to-maturity in accordance with ASC 320 "Investments – Debt and Equity Securities". Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. Held-to-maturity treasury securities are recorded at amortized cost on the accompanying balance sheet and are adjusted for the accretion of discounts.

A decline in the market value of held-to-maturity securities below cost that is deemed to be other than temporary, results in an impairment that reduces the carrying costs to such securities' fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other than temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective-interest method. Such amortization and accretion is included in the "interest income" line item in the statements of operations. Interest income is recognized when earned.

CIS Acquisition Ltd.  
Notes to Unaudited Interim Financial Statements  
For the Six Months Ended April 30, 2014

### 3. Summary of Significant Accounting Policies, continued

#### Restricted Investments and Cash Equivalents Held in Trust Account, continued

The carrying amount, gross unrealized holding gains and the fair value of held-to-maturity securities as of April 30, 2014 are as follows:

	Carrying Amount	Gross Unrealized Holding Gain	Fair Value
Held-to-maturity:			
U.S. Treasury Bills	\$ 41,599,206	\$ 794	\$41,600,000

On May 15, 2014, the Company realized proceeds from the maturity of its U.S. Treasury Bills of \$41,600,000. The proceeds from the maturity remain held in the Trust Account as restricted cash and cash equivalents.

#### Income Tax

The Company complies with FASB ASC 740, "Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and 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. FASB ASC 740 also establishes recognition requirements for the accounting for uncertainty in income taxes. The Company has identified the British Virgin Islands as its only major tax jurisdiction. There were no unrecognized tax benefits as of April 30, 2014. Since the Company was incorporated on November 28, 2011, the evaluation was performed for the tax years ended October 31, 2013 and 2012, which are the only periods subject to examination. The section prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at April 30, 2014. The

Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

### **Fair Value Measurements**

The carrying amounts of cash, cash equivalents, restricted cash, and accrued expenses and other current liabilities, approximate fair value due to the short-term nature of these instruments.

Fair value is defined as an exit price, representing the amount that would be received upon the sale of an asset or payment to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

- Level 1. Quoted prices in active markets for identical assets or liabilities.
- Level 2. Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3. Significant unobservable inputs that cannot be corroborated by market data.

CIS Acquisition Ltd.  
Notes to Unaudited Interim Financial Statements  
For the Six Months Ended April 30, 2014

### 3. Summary of Significant Accounting Policies, continued

#### Fair Value Measurements, continued

The assets or liability's fair value measurement within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. The following table provides a summary of the liabilities that are measured at fair value on a recurring basis.

	Consolidated Balance Sheet	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Quoted Prices for Similar Assets or Liabilities in Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Liabilities:				
October 31, 2013	\$ 3,230,000	\$ -	\$ -	\$ 3,230,000
April 30, 2014	\$ 3,185,000	\$ -	\$ -	\$ 3,185,000

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis:

	For the Six Months Ended April 30, 2014
Beginning balance	\$ 3,230,000
Change in fair value of warrant liability	(45,000 )
Ending balance	\$ 3,185,000

Level 3 financial liabilities consist of the derivative liabilities for which there is no current market such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the derivative liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's Chief Financial Officer determines its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's Chief Financial Officer with support from the Company's consultants.

The Company accounts for the 4,000,000 warrants issued in connection with the Public Offering, and the 4,500,000 warrants issued in connection with the Private Placement in accordance with the guidance contained in ASC 815-40-15-7D whereby under that provision they do not meet the criteria for equity treatment and must be recorded as a liability. Accordingly, the Company classifies the warrant instrument as a liability at its fair value. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's statement of operations.

The fair value of the warrant liability was determined by the Company using the Binomial Lattice pricing model. This model is dependent upon several variables such as the instrument's expected term, expected strike price, expected risk-free interest rate over the expected instrument term, the expected dividend yield rate over the expected instrument term, expected volatility of the Company's share price over the expected term, expected time to complete an acquisition and estimated probability of completing a successful acquisition. The expected term represents the period of time that the instruments granted are expected to be outstanding. The expected strike price is based upon a weighted average probability analysis of the strike price changes expected during the term as a result of the down round protection. The risk-free rates are based on U.S. Treasury securities with similar maturities as the expected terms of the options at the date of valuation. Expected dividend yield is based on historical trends. The Company measures volatility using a blended weighted average of the volatility rates for a number of similar publicly-traded companies along with the Company's historical volatility.

CIS Acquisition Ltd.  
Notes to Unaudited Interim Financial Statements  
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### 3. Summary of Significant Accounting Policies, continued

#### Fair Value Measurements, continued

A significant decrease in the volatility or a significant decrease in the Company's share price, in isolation, would result in a significantly lower fair value measurement. Changes in the values of the derivative liabilities are recorded in change in fair value of derivative liabilities within other expense (income) on the Company's statements of operations.

As of April 30, 2014, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

The inputs to the model were as follows:

	April 30, 2014		October 31, 2013	
Dividend yield (per share)	0	%	0	%
Risk-free interest rate:	0.87	%	1.3	%
Expected term	3.6 years		4.13 years	
Expected volatility rate	16.57	%	18.1	%
Assumed acquisition date	August 18, 2014		August 18, 2014	
Estimated probability of acquisition success	61.6	%	61.2	%

In connection with the fair value of the derivative liabilities as of April 30, 2014, the Company considered the impact on the fair value as reported, as if the assumed acquisition date had been September 19, 2014, and concluded that any changes to the fair value of the derivative liabilities would be immaterial.

#### Concentration of Credit Risk

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 insured amounts. Accordingly, the Company is subject to the risk of failure of the financial institutions where it maintains its cash deposits. See discussion under Cash and Cash Equivalents regarding a theft against one of the Company's former bank accounts.

### **Ordinary Shares Subject to Possible Conversion**

The ordinary shares as part of the Units (the “Units”) issued in the Public Offering, contained a conversion feature which is subject to redemption. In accordance with ASC 480, “Distinguishing Liabilities from Equity” (“ASC 480”), redemption provisions not solely within the control of the Company require the security to be classified outside of permanent equity.

Accordingly, 3,500,000 of the 4,000,000 public shares were classified outside of permanent equity at redemption value because the redemption rights are subject to the occurrence of certain events that are outside of the Company’s control. The redemption value at April 30, 2014 was equal to approximately the pro rata share of the aggregate amount then on deposit in the Trust Account (\$10.40 per share at April 30, 2014).

### **Recent Accounting Pronouncements**

In June 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-10, “Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation.” This ASU removes the definition of a development stage entity from the ASC, thereby removing the financial reporting distinction between development stage entities and other reporting entities from GAAP. In addition, the ASU eliminates the requirements for development stage entities to (1) present inception-to-date information in the statements of operations, cash flows, and stockholders’ equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. This ASU is effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. Early adoption is permitted. The Company has elected to early adopt this ASU effective with this Quarterly Report on Form 10-Q and its adoption resulted in the removal of previously required development stage disclosures.

In August 2014, the FASB issued a new accounting standard which requires management to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company expects to adopt this new standard for the fiscal year ending February 3, 2018 and the Company will continue to assess the impact on its consolidated financial statements.

### **4. Commitments**



The Company entered into an agreement with the underwriters (the “Underwriting Agreement”). Pursuant to the Underwriting Agreement, the Company paid an underwriting discount of 1.8% of the gross proceeds of the Public Offering, or \$720,000 on December 21, 2012.

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CIS Acquisition Ltd.  
Notes to Unaudited Interim Financial Statements  
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#### **4. Commitments, continued**

The holders of the founders' shares, as well as the holders of the Placement Warrants (and underlying securities) and Underwriter Shares, are entitled to registration rights pursuant to a registration rights agreement signed on December 18, 2012. The holders of the majority of these securities are entitled to make up to two demands that the Company register such securities. The holders of the majority of the founders' shares and Underwriter Shares can elect to exercise these registration rights at any time commencing three months prior to the date on which the founders' shares are to be released from escrow. The holders of a majority of the Placement Warrants (or underlying securities) can elect to exercise these registration rights at any time after the Company consummates an Acquisition Transaction or completes a post-acquisition tender offer, as the case may be. In addition, the holders have certain "piggy-back" registration rights with respect to registration statements filed subsequent to the consummation of an Acquisition Transaction or post-acquisition tender offer. The Company will bear the expenses incurred in connection with the filing of any such registration statements.

#### **5. Related Party Transactions**

The Company agreed to pay to CIS Acquisition Holding Co. Ltd. ("CIS Acq Holding"), an affiliate of Anatoly Danilitskiy, our Chairman and Chief Executive Officer, and Taras Vazhnov, our director, a total of \$7,500 per month for office space, administrative services and secretarial support for a period commencing on December 18, 2012 and ending on the earlier of the consummation of an Acquisition Transaction or the Company's liquidation. Such fees have been paid as incurred only out of interest earned on the trust account or assets not held in trust, if any. If there are insufficient funds from interest earned on the trust account or from assets not held in trust, then the obligation to CIS Acquisition Holding Co. Ltd. will be accrued and not paid. During the six months ended April 30, 2014 and 2013, the Company has incurred \$45,000 and \$30,000, respectively, for these office space expenses to CIS Acquisition Holding Co. Ltd.

On March 24, 2014, the Company entered into an agreement with CIS Acq Holding, under which for one year the Company may borrow up to \$300,000 with no interest. All amounts borrowed under this agreement are due March 23, 2015. On March 25, 2014 and June 11, 2014, the Company borrowed \$30,000 and \$120,000 under this borrowing arrangement. As of April 30, 2014, a balance of \$30,000 was outstanding under this loan.

#### **6. Shareholders' Equity**

**Preferred Shares:**

The Company's Amended and Restated Memorandum of Association authorizes the issuance of up to 5,000,000 preferred shares each with such designation, rights and preferences as may be determined by the board of directors. No preferred shares are currently issued or outstanding.

**Ordinary Shares:**

The Company's Amended and Restated Memorandum of Association authorizes the issuance of up to 75,000,000 ordinary shares. No ordinary shares are currently issued or outstanding.

*Class A Shares:*

The Company's Amended and Restated Memorandum of Association authorizes the issuance of up to 25,000,000 Class A shares. As of April 30, 2014 and October 31, 2013, 1,636,000 Class A shares were issued and outstanding, excluding 3,500,000 Class A shares subject to possible redemption or tender.

*Class B Shares:*

The Company's Amended and Restated Memorandum of Association authorizes the issuance of up to 25,000,000 Class B Shares. No Class B shares are currently issued or outstanding.

*Class C Shares:*

The Company's Amended and Restated Memorandum of Association authorizes the issuance of up to 25,000,000 Class C Shares. No Class C shares are currently issued or outstanding.

CIS Acquisition Ltd.  
Notes to Unaudited Interim Financial Statements  
For the Six Months Ended April 30, 2014

## **7. Stock Purchase Agreement**

On September 19, 2014, the Delta Agreement was entered into by and among CIS, Delta and Delta's Parent and the Elite Shareholders. Pursuant to the Agreement, the Company will acquire 100% of the issued and outstanding equity interests in Delta from Delta's Parent and Elite Shareholders in exchange for the transaction consideration consisting of 6,060,000 Ordinary Shares (the "Acquisition"). The Agreement also provides additional shares to be issued to Delta's Parent and Elite Shareholders.

## **8. Subsequent Events**

The Company evaluated events that have occurred after the balance sheet date of April 30, 2014 through the date which the financials were available to be issued. Based upon this review, other than as already disclosed within these financial statements in Notes 1, 3 and 7, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the financial statements.

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**Delta Advanced Materials Limited**

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**Report of Independent Registered Public Accounting Firm**

To: The Board of Directors and Shareholders of  
Delta Advanced Materials Limited

We have audited the accompanying consolidated balance sheets of Delta Advanced Materials Limited and its subsidiaries (collectively, the “Company”) as of June 30, 2014, 2013 and 2012, and the related consolidated statements of operations and comprehensive income, shareholders’ equity and cash flows for each of the years ended June 30, 2014, 2013 and 2012. These consolidated financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2014, 2013 and 2012, and the results of its operations and comprehensive income, and its cash flows for each of the years ended June 30, 2014, 2013 and 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ Dominic K.F. Chan & Co

Dominic K.F. Chan & Co

Certified Public Accountants

Hong Kong, September 12, 2014



**Delta Advanced Materials Limited****Consolidated Balance Sheets****as at June 30, 2014, 2013 and 2012**

	2014	2013	2012
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$9,045,950	\$3,946,136	\$7,054,228
Restricted cash	22,855,107	24,740,635	41,347,182
Trade and other receivables	77,745,875	61,460,604	40,293,613
Inventories	14,062,567	13,803,489	9,586,598
	123,709,499	103,950,864	98,281,621
Non-current assets			
Property, plant and equipment	76,439,788	57,293,878	42,489,304
Land use rights	5,724,636	5,262,766	2,424,878
Deferred tax assets	657,377	531,492	449,111
	82,821,801	63,088,136	45,363,293
<b>Total assets</b>	<b>\$206,531,300</b>	<b>\$167,039,000</b>	<b>\$143,644,914</b>
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables	\$35,850,810	\$27,336,609	\$43,370,265
Advances from customers	1,776,624	2,428,443	1,436,529
Due to a shareholder	2,857,432	-	-
Bank borrowings	81,377,050	60,764,176	35,754,719
Income tax payables	814,051	900,627	810,196
Deferred tax liabilities	1,020,209	74,967	91,643
Convertible bonds - current portion	27,375,750	27,219,551	-
	151,071,926	118,724,373	81,463,352
Non-current liabilities			
Convertible bonds - non-current portion	-	-	27,182,551
<b>Total liabilities</b>	<b>\$151,071,926</b>	<b>\$118,724,373</b>	<b>\$108,645,903</b>
Commitments and contingencies	-	-	-
Capital and reserves			
Share capital	\$8,852,713	\$5,134,788	\$5,134,788
Additional paid-in capital	-	3,717,925	3,717,925
Statutory reserves	6,196,949	3,219,995	2,501,593
Retained earnings	34,370,050	30,518,696	19,531,362
Accumulated other comprehensive income	6,039,662	5,723,223	4,113,343



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Total equity	55,459,374	48,314,627	34,999,011
Total liabilities and equity	\$206,531,300	\$167,039,000	\$143,644,914

*See notes to consolidated financial statements.*

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**Delta Advanced Materials Limited****Consolidated Statements of Operations and Comprehensive Income****For the years ended June 30, 2014, 2013 and 2012**

	2014	2013	2012
Revenue	\$ 175,327,717	\$ 124,218,213	\$ 95,627,051
Cost of sales	(157,904,729)	(99,733,216)	(69,686,610)
Gross profit	17,422,988	24,484,997	25,940,441
Operating expenses:			
Selling expenses	(2,306,021 )	(2,374,609 )	(2,442,753 )
General and administrative expenses	(3,482,027 )	(4,267,774 )	(4,409,313 )
Total operating expenses	(5,788,048 )	(6,642,383 )	(6,852,066 )
Other income (expenses):			
Interest expenses	(4,000,626 )	(2,806,338 )	(2,240,872 )
Interest income	1,948,743	923,298	594,409
Change in fair value of convertible bonds	(156,199 )	(37,000 )	(2,440,283 )
Other gains (loss) - net	7,929	(60,197 )	(9,215 )
Total other income (expenses)	(2,200,153 )	(1,980,237 )	(4,095,961 )
Income before income taxes	9,434,787	15,862,377	14,992,414
Income taxes	(2,606,479 )	(4,156,641 )	(4,520,840 )
Net income	\$ 6,828,308	\$ 11,705,736	\$ 10,471,574
Other comprehensive income			
Foreign currency translation adjustments	316,439	1,609,880	1,332,001
Total other comprehensive income	316,439	1,609,880	1,332,001
Comprehensive income	\$ 7,144,747	\$ 13,315,616	\$ 11,803,575
Earnings per share attributable to equity holders of the Company			
- Basic	\$0.17	\$0.29	\$0.26
- Diluted	\$0.12	\$0.20	\$0.22
Weighted average shares used in calculating earnings per ordinary share			
- Basic	40,000,000	40,000,000	40,000,000
- Diluted	58,191,973	58,191,973	58,191,973

*See notes to consolidated financial statements.*

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**Delta Advanced Materials Limited****Consolidated Statements of Shareholders' Equity****For the years ended June 30, 2014, 2013 and 2012**

	Share capital Ordinary share	Amount	Additional paid-in capital	Statutory reserves	Retained earnings	Accumulated other comprehensive income	Total
Balance as of July 1, 2011	10,000	\$ 1,283	\$ 8,851,430	\$ 1,203,999	\$ 10,357,382	\$ 2,781,342	\$ 23,195,436
Foreign currency translation adjustment	-	-	-	-	-	1,332,001	1,332,001
Issue of bonus shares	39,990,000	5,133,505	(5,133,505)	-	-	-	-
Net income for the year	-	-	-	-	10,471,574	-	10,471,574
Appropriation to statutory reserves	-	-	-	1,297,594	(1,297,594)	-	-
Balance as of June 30, 2012	40,000,000	\$ 5,134,788	\$ 3,717,925	\$ 2,501,593	\$ 19,531,362	\$ 4,113,343	\$ 34,999,011
Balance as of July 1, 2012	40,000,000	\$ 5,134,788	\$ 3,717,925	\$ 2,501,593	\$ 19,531,362	\$ 4,113,343	\$ 34,999,011
Foreign currency translation adjustment	-	-	-	-	-	1,609,880	1,609,880
Net income for the year	-	-	-	-	11,705,736	-	11,705,736
Appropriation to statutory reserves	-	-	-	718,402	(718,402)	-	-
Balance as of June 30, 2013	40,000,000	\$ 5,134,788	\$ 3,717,925	\$ 3,219,995	\$ 30,518,696	\$ 5,723,223	\$ 48,314,627
Balance as of July 1, 2013	40,000,000	\$ 5,134,788	\$ 3,717,925	\$ 3,219,995	\$ 30,518,696	\$ 5,723,223	\$ 48,314,627
Foreign currency translation adjustment	-	-	-	-	-	316,439	316,439
	-	3,717,925	(3,717,925)	-	-	-	-

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Transition to no par value regime							
Net income for the year	-	-	-	-	6,828,308	-	6,828,308
Appropriation to statutory reserves	-	-	-	2,976,954	(2,976,954 )	-	-
Balance as of June 30, 2014	40,000,000	\$8,852,713	\$-	\$6,196,949	\$34,370,050	\$ 6,039,662	\$55,459,374

*See notes to consolidated financial statements.*

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**Delta Advanced Materials Limited****Consolidated Statements of Cash Flows****For the years ended June 30, 2014, 2013 and 2012**

	2014	2013	2012
Cash flows from operating activities:			
Net income	\$6,828,308	\$ 11,705,736	\$ 10,471,574
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in fair value of convertible bonds	156,199	37,000	2,440,283
Depreciation of property, plant and equipment	4,816,403	4,055,295	3,202,477
Amortization of land use rights	41,600	39,927	31,803
Written off of goodwill	-	71,638	-
Gain on disposals of property, plant and equipment	(113,953 )	-	-
Deferred income taxes	822,200	(94,179 )	(305,753 )
Allowance for doubtful accounts	177,179	411,211	801,134
Changes in assets and liabilities, net of effects of acquisitions:			
Trade and other receivables	(16,343,386 )	(20,408,647 )	1,828,568
Inventories	(191,049 )	(3,953,649 )	(2,239,736 )
Trade and other payables	8,428,337	(16,707,725 )	(1,389,298 )
Advances from customers	(665,038 )	947,128	921,659
Income tax payables	(91,200 )	72,129	(615,916 )
Net cash provided by (used in) operating activities	3,865,600	(23,824,136)	15,146,795
Cash flows from investing activities:			
Acquisitions of			
- Land use rights	(478,184 )	(2,784,957 )	(144,728 )
- Property, plant and equipment	(23,957,404 )	(17,225,856)	(12,447,776)
Disposals of property and equipment	359,012	-	-
Cash paid for business combinations, net of cash acquired	-	(524,217 )	-
Net cash (used in) investing activities	(24,076,576 )	(20,535,030)	(12,592,504)
Cash flows from financing activities:			
Proceeds from bank borrowings	129,232,006	74,017,122	46,423,050
Repayment of bank borrowings	(108,797,261)	(49,884,676)	(26,984,212)
Proceeds from convertible bonds	-	-	4,000,000
Due to a shareholder	2,857,432	-	-
Change in restricted cash	2,011,673	17,225,727	(25,648,750)
Net cash provided by (used in) financing activities	25,303,850	41,358,173	(2,209,912 )
Effect of exchange rate changes on cash	6,941	(107,099 )	151,778
Increase (decrease) in cash and cash equivalents	5,099,815	(3,108,092 )	496,157

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Cash and cash equivalents at beginning of year	3,946,135	7,054,228	6,558,071
Cash and cash equivalents at end of year	\$9,045,950	\$3,946,136	\$7,054,228
Supplemental disclosures of cash flow information:			
Interest paid	\$4,000,626	\$2,806,338	\$2,240,872
Tax paid	\$2,693,055	\$4,066,210	\$5,109,044

*See notes to consolidated financial statements.*

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## **Delta Advanced Materials Limited**

### **Notes to Consolidated Financial Statements**

**For the years ended June 30, 2014, 2013 and 2012**

#### **Note 1 - Organization and Business Operations**

Delta Advanced Materials Limited (formerly known as China Deltachem Holdings Limited) (the “Company” or “Delta Advanced”) 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 the Company is the United States Dollar (“\$”).

The principal activity of the Company is investment holding. The Company currently operates through itself, and four wholly-owned subsidiaries in the People’s Republic of China (“PRC”): Jiangsu Yangtze Delta Fine Chemical Co., Ltd (“Jiangsu Delta”), Jiangsu Zhengxin New Material Research and Development Co., Ltd (“Jiangsu Zhengxin R&D”), Jiangsu Delta Logistics Co., Ltd (“Jiangsu Logistics”), and Binhai Deda Chemical Co., Ltd (“Binhai Deda”). Jiangsu Delta is the principal operating subsidiary of the Company.

The Company and its subsidiaries (hereinafter, collectively referred to as the “Company”) are engaged in the sale of organic compound in the PRC.

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 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.



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, Delta Advanced for a consideration of US\$28.8 million. Delta Advanced, formerly known as China Deltachem Holdings Limited, as a pure investment holding vehicle controlled by Mr. Chao and 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 Advanced 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 Advanced carried out a bonus share issue, whereby an additional 39,990,000 ordinary shares of Delta Advanced were allotted and issued as bonus shares at a price of HK\$1.00 each to all the then shareholders of Delta Advanced 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 Advanced. Subsequent to the bonus issue, Delta Advanced’s total issued and paid-up share capital increases to HK\$40 million, comprising 40 million shares of HK\$1.00 each.

Delta Advanced 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 has 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 Advanced, on such terms and subject to the conditions of the Securities Purchase Agreements.

## **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.

**Delta Advanced Materials Limited**

**Notes to Consolidated Financial Statements**

**For the years ended June 30, 2014, 2013 and 2012**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**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, 2014, 2013 and 2012 were capitalized at a rate of 7.11%, 7.17% and 7.63% respectively.

**Delta Advanced Materials Limited**

**Notes to Consolidated Financial Statements**

**For the years ended June 30, 2014, 2013 and 2012**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**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.

**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 recognised 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.



**Delta Advanced Materials Limited**

**Notes to Consolidated Financial Statements**

**For the years ended June 30, 2014, 2013 and 2012**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**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.

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, 2014, 2013 and 2012.

**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, \$71,638 and nil respectively during the years ended June 30, 2014, 2013 and 2012.

#### **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 Group 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.



**Delta Advanced Materials Limited**

**Notes to Consolidated Financial Statements**

**For the years ended June 30, 2014, 2013 and 2012**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**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.

**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.

**Research and Development Costs**

Research and development costs are expensed as incurred. The research and development costs were not material for the years ended June 30, 2014, 2013 and 2012.

### **Advertising Expenses**

Advertising expenses are expensed as incurred. The advertising expenses were not material for the years ended June 30, 2014, 2013 and 2012.

### **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**

The Company considers all short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less to be cash equivalents.

**Delta Advanced Materials Limited**

**Notes to Consolidated Financial Statements**

**For the years ended June 30, 2014, 2013 and 2012**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Share Based Payment**

The Group operates an equity-settled, share based compensation plan. The value of the brokerage services received by Red Horse Capital Inc. in exchange for grant of warrants is recognised as an expense with a corresponding increase in the additional paid-in capital of approximately \$7,943 during the year ended June 30, 2011.

Goods and services received or acquired in an equity-settled share based payment transaction, which do not qualify for recognition as assets, are recognised 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.

**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 footnote 10 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.



**Delta Advanced Materials Limited**

**Notes to Consolidated Financial Statements**

**For the years ended June 30, 2014, 2013 and 2012**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Recently Issued Accounting Guidance**

The FASB has issued Accounting Standards Update (ASU) No. 2014-06, Technical Corrections and Improvements Related to Glossary Terms. The amendments in this ASU relate to glossary terms and cover a wide range of Topics in the FASB's Accounting Standards Codification<sup>TM</sup> (Codification). These amendments are presented in four sections:

1. Deletion of Master Glossary Terms (Section A) arising because of terms that were carried forward from source literature (e.g., FASB Statements, EITF Issues, and so forth) to the Codification but were not utilized in the Codification.
2. Addition of Master Glossary Term Links (Section B) arising from Master Glossary terms whose links did not carry forward to the Codification.
3. Duplicate Master Glossary Terms (Section C) arising from Master Glossary terms that appear multiple times in the Master Glossary with similar, but not identical, definitions.
4. Other Technical Corrections Related to Glossary Terms (Section D) arising from miscellaneous changes to update Master Glossary terms.

The amendments do not have transition guidance and are effective upon issuance for both public entities and nonpublic entities.

The FASB has issued Accounting Standards Update (ASU) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in the ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP.

Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment.

In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations.

The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure will provide users with information about the ongoing trends in a reporting organization's results from continuing operations.

The amendments in this ASU enhance convergence between U.S. GAAP and International Financial Reporting Standards (IFRS). Part of the new definition of discontinued operation is based on elements of the definition of discontinued operations in IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The amendments in the ASU are effective in the first quarter of 2015 for public organizations with calendar year ends. For most nonpublic organizations, it is effective for annual financial statements with fiscal years beginning on or after December 15, 2014. Early adoption is permitted.

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 Advanced Materials Limited****Notes to Consolidated Financial Statements****For the years ended June 30, 2014, 2013 and 2012****Note 3 - 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 Group's sales or trade receivables are as follows:

	Sales			Trade receivables		
	2014	2013	2012	2014	2013	2012
Customer A	5.4%	7.1 %	9.4 %	6.8%	11.4%	6.9 %
Customer B	3.6%	5.1 %	1.3 %	2.6%	14.0%	1.5 %

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

	Purchases			Trade payables		
	2014	2013	2012	2014	2013	2012
Supplier A	13.0%	0.0 %	0.0 %	12.9%	0.0 %	0.0 %
Supplier B	10.7%	7.6 %	0.0 %	29.4%	25.2%	0.0 %
Supplier C	9.8 %	9.9 %	0.0 %	0.0 %	13.9%	10.5%
Supplier D	7.6 %	24.0%	11.2%	2.2 %	5.3 %	0.0 %
Supplier E	4.8 %	11.3%	16.9%	0.0 %	0.4 %	0.0 %

**Note 4 - Trade and other receivables**



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	2014	2013	2012
Notes receivable	\$780,736	\$2,097,577	\$1,136,208
Trade receivables	54,742,846	52,483,956	30,024,558
Less: Allowance for doubtful accounts	(1,424,173 )	(1,241,163 )	(806,620 )
Trade receivables - net	53,318,673	51,242,793	29,217,938
Other receivables	11,112,406	2,944,667	4,606,133
Prepayments and deposits	12,534,060	5,175,567	5,333,334
	\$77,745,875	\$61,460,604	\$40,293,613

Bank borrowings are secured on trade receivables of the Group with carrying amounts of \$6,983,127, nil and nil for the years ended June 30, 2014, 2013 and 2012 respectively.

Age analysis of trade and other receivables:

	2014	2013	2012
Within 3 months	\$34,040,404	\$33,894,770	\$21,369,268
From 3 to 6 months	8,767,953	13,757,760	5,196,718
Past due over 6 months	23,046,895	7,776,093	8,064,705
	\$65,855,252	\$55,428,623	\$34,630,691

**Delta Advanced Materials Limited****Notes to Consolidated Financial Statements****For the years ended June 30, 2014, 2013 and 2012****Note 5 - Inventories**

	2014	2013	2012
Finished goods	\$8,338,302	\$6,202,218	\$2,411,789
Raw materials	5,724,265	7,601,271	7,174,809
	\$14,062,567	\$13,803,489	\$9,586,598

The cost of inventories recognized as an expense and included in cost of sales amounts to \$116,976,856, \$76,638,808 and \$57,788,591 for the years ended June 30, 2014, 2013 and 2012 respectively.

**Note 6 - Property, plant and equipment**

	2014	2013	2012
Buildings	\$14,197,999	\$11,870,184	\$6,864,905
Machinery	51,900,300	36,604,659	31,671,810
Vehicles	1,803,008	1,076,025	758,377
Plant and equipment	4,823,706	2,469,522	1,011,018
Software	43,858	83,606	81,866
Construction in progress	18,397,073	15,059,369	7,734,753
	91,165,944	67,163,365	48,122,729
Less: Accumulated depreciation	(14,726,156)	(9,869,487)	(5,633,425)
Net book value	\$76,439,788	\$57,293,878	\$42,489,304

Borrowing costs capitalized during the years ended June 30, 2014, 2013 and 2012 were \$824,669, \$243,362 and \$28,578, respectively.

Buildings with net book value of approximately \$313,286, \$328,618 and nil were used as collateral of short term bank borrowings for the years ended June 30, 2014, 2013 and 2012, respectively.

The depreciation expenses for the years ended June 30, 2014, 2013 and 2012 were \$4,816,403, \$4,055,295 and \$3,202,477, respectively.

**Delta Advanced Materials Limited****Notes to Consolidated Financial Statements****For the years ended June 30, 2014, 2013 and 2012****Note 7 - Land Use Rights**

	2014	2013	2012
Land use rights	\$5,982,880	\$5,478,417	\$2,596,356
Less: Accumulated amortization	(258,244 )	(215,651 )	(171,478 )
Land use rights - net	\$5,724,636	\$5,262,766	\$2,424,878

Land use rights with net book value of approximately \$2,394,716, \$2,435,879 and \$1,917,523 were used as collateral of short term bank borrowings for the years ended June 30, 2014, 2013 and 2012, respectively.

The amortization expenses for the years ended June 30, 2014, 2013 and 2012 were \$41,600, \$39,927 and \$31,803, respectively.

Years ending June 30,	
2015	\$41,600
2016	41,600
2017	41,600
2018	41,600
2019	41,600
Thereafter	5,516,636
Total	\$5,724,636

**Note 8 - Trade and other payables**

	2014	2013	2012
Notes payable	\$13,073,063	\$969,587	\$28,324,129
Trade payables	19,658,604	19,188,011	12,049,195
Accruals	408,406	390,259	234,707
Other taxes payable	853,681	477,006	627,178
Other payables	1,857,056	6,311,746	2,135,056

\$35,850,810 \$27,336,609 \$43,370,265

**Note 9 - Due to a Shareholder**

The amount due to a shareholder is unsecured, interest free and has no fixed repayment date.

**Note 10 - Bank Borrowings**

As of June 30, 2014, 2013 and 2012, the Company had short-term borrowings from banks which were repayable within one year and charged at interest rates ranging from 3.9% to 8.7%, from 2.5% to 9.0% and from 2.5% to 10.4% per annum, respectively. Such borrowings 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, key management of the Company and the ultimate controlling party of the Company.

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**Delta Advanced Materials Limited****Notes to Consolidated Financial Statements****For the years ended June 30, 2014, 2013 and 2012****Note 11 - Convertible Bonds**

The Company has entered into a series of securities purchase agreements dated January 31, 2011, May 16, 2011 and June 30, 2011 with certain investment funds, pursuant to which it has issued certain bonds for an aggregate principal amount of \$18,000,000. Details of the convertible bonds issuance are as follows:

	First batch	Second batch	Third batch
Issue date	January 31, 2011	May 16, 2011	June 30, 2011
Principal amount	\$ 4 million	\$ 10 million	\$ 4 million
Interest rate	6% per annum	6% per annum	6% per annum
Type	Unsecured convertible bond	Unsecured convertible bond	Unsecured convertible bond
Conversion Date	Within 3 years after issue date	Within 3 years after issue date	Within 3 years after issue date
Underlying share	Ordinary Share	Ordinary Share	Ordinary Share
Guaranteed interest rate at maturity	15% per annum	15% per annum	15%per annum
Conversion price	\$ 0.8625 per share <sup>1</sup>	\$ 1.04 per share <sup>1</sup>	\$ 1.04 per share <sup>1</sup>
Adjustments to conversion price	In the event of a share split, share dividends, reverse share split or similar transaction, the Conversion Price shall be automatically adjusted proportionately.		

Number of shares convertible	Upon the issuance of new share or other equity-linked instruments at a price lower than the then existing Conversion price or on terms more favourable, the Conversion price shall be automatically adjusted downward to the same prices as that of the new equity. Number of shares convertible = (Principle + 6% conversion interest compounded annually) / Conversion price If an IPO occurs on or before the eighteen (18) month anniversary of the closing date of the initial closing, no conversion interest shall be payable for the first 18 months period.
Payment condition when conversion right is not exercised until maturity date	On the maturity date the Company shall pay Guaranteed interest, calculated from initial issue date and compounded annually, on the then outstanding and unconverted principal amount. In the event that an IPO has not been consummated on or prior to the two-year anniversary of the original issue date, the holder of note shall have the right exercisable for a thirty (30) day period following the two-year anniversary of the original issue date to require the Company to redeem with 15% interest rate per annum.
Put option	

<sup>1</sup>The conversion price is adjusted by the bonus shares

	2014	2013	2012
Current portion	\$27,375,750	\$27,219,551	\$-
Non-current portion	-	-	27,182,551
	\$27,375,750	\$27,219,551	\$27,182,551

The carrying amount of the convertible bonds at the balance sheet date is derived as follows:

Face value of convertible bonds	\$18,000,000	\$18,000,000	\$18,000,000
Loss on valuation of convertible bonds	9,375,750	9,219,551	9,182,551
	\$27,375,750	\$27,219,551	\$27,182,551
Loss on valuation of convertible bonds:			
At beginning of year	\$9,219,551	\$9,182,551	\$6,742,268
Provided for the year	156,199	37,000	2,440,283
At end of year	\$9,375,750	\$9,219,551	\$9,182,551

**Delta Advanced Materials Limited****Notes to Consolidated Financial Statements****For the years ended June 30, 2014, 2013 and 2012****Note 12 - Share Capital**

All issued ordinary shares are fully paid. On May 26, 2011, the Company issued bonus shares by way of capitalization of additional paid-in capital amounting to \$5,133,505.

Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists. In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition. In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622) on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Company's share capital. An amount of \$3,665,212 has been transferred from additional paid-in capital to share capital.

**Note 13 - Income Taxes**

The income tax provision consisted of the following:

	2014	2013	2012
Current income tax expense	\$1,784,278	\$4,250,820	\$4,826,593
Deferred taxation	822,200	(94,179 )	(305,753 )
	\$2,606,478	\$4,156,641	\$4,520,840

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:



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	2014	2013	2012
Income before income taxes	\$9,434,787	\$15,862,377	\$14,992,414
Income tax computed at statutory EIT rate (25%)	2,358,696	3,965,594	3,748,104
Effect of different tax rates available to different jurisdictions	23,964	(10,150 )	271,769
Non-deductible expenses	25,773	6,105	402,647
Change in valuation allowance and others	198,045	195,092	98,320
Income tax expenses	\$2,606,478	\$4,156,641	\$4,520,840

Dividends paid by Jiangsu Delta to the Company are subject to the withholding tax of 5%. The Company's PRC entities historically have not paid any dividends.

The tax effects of temporary differences that give rise to the Company's net deferred tax assets and liabilities are summarized as follows:

	2014	2013	2012
Deferred tax assets			
Current portion:			
Receivables provision	\$449,509	\$344,371	\$236,181
Tax losses carried forward	207,868	187,121	212,930
Less: Valuation allowance	-	-	-
Total deferred tax assets	\$657,377	\$531,492	\$449,111

**Delta Advanced Materials Limited****Notes to Consolidated Financial Statements****For the years ended June 30, 2014, 2013 and 2012****Note 13 - Income Taxes (Continued)**

	2014	2013	2012
Deferred tax liabilities			
Revenue cut-off difference derived from Value Added Tax reporting system to calculate PRC Corporation Income Tax in accordance with the PRC State Administration of Taxation	\$ 1,020,209	\$ 74,967	\$ 91,643
Total deferred tax liabilities	\$ 1,020,209	\$ 74,967	\$ 91,643
Net deferred tax (liabilities) assets	\$(362,832 )	\$ 456,525	\$ 357,468

**Note 14 - 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:

	2014	2013	2012
Numerator:			
Net income attributable to ordinary shareholders for computing net income per ordinary share – basic	\$ 6,828,308	\$ 11,705,736	\$ 10,471,574
Loss on valuation of convertible bonds	156,199	37,000	2,440,283
Net income attributable to ordinary shareholders for computing net income per ordinary share – diluted	\$ 6,984,507	\$ 11,742,736	\$ 12,911,857
Denominator:			
Weighted average number of shares used in calculating net income per ordinary share – basic	40,000,000	40,000,000	40,000,000
Adjustments for			
- Execution of convertible bonds	18,099,220	18,099,220	18,099,220
- Execution of stock warrant	92,753	92,753	92,753

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Weighted average number of shares used in calculating net income per ordinary share – diluted	58,191,973	58,191,973	58,191,973
Net income per ordinary share – basic	\$0.17	\$0.29	\$0.26
Net income per ordinary share – diluted	\$0.12	\$0.20	\$0.22

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**Delta Advanced Materials Limited****Notes to Consolidated Financial Statements****For the years ended June 30, 2014, 2013 and 2012****Note 15 - Acquisition**

On August 18, 2012, Zhengxin International and Jiangsu Delta entered into a sale and purchase agreement, pursuant to which the entire equity interest of Jiangsu Zhengxin R&D was acquired by Jiangsu Delta from Zhengxin International at a consideration of \$525,363 (RMB3.3 million). The acquisition of Jiangsu Zhengxin R&D was approved by the Danyang Bureau of Commerce on September 18, 2012 in accordance with “The Approval and Transfer of and the Alteration of Nature of Zhengxin New Material R&D Co., Limited”.

Assets acquired and liabilities assumed at the date of acquisition:

Cash and cash equivalents	\$1,146
Property, plant and equipment	524,909
Trade and other payables	(72,330 )

\$453,725

Goodwill arising on acquisition:

Consideration transferred	\$525,363
Less: Fair value of identifiable net assets acquired	(453,725)

\$71,638

Net cash outflow on acquisition of subsidiary:

Consideration paid in cash	\$525,363
Less: Cash and cash equivalents acquired	(1,146 )

\$524,217

**Note 16 - Commitments**

	2014	2013	2012
Capital commitments			
Capital expenditures contracted for are analyzed as follows:			
Contracted but not provided for:			
Property, plant and equipment	\$8,180,814	\$12,582,246	\$11,286,183

**Note 17 –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 a key management for the year ended June 30, 2014.

Guarantees in favour of the Company's bank borrowings were received from the ultimate controlling party for the years ended June 30, 2014, 2013 and 2012.

The immediate and ultimate controlling party of the Company is Mr Chao Xin.

#### **Note 18 - Subsequent Events**

On September 11, 2014, the Board of Directors approved an interim cash dividend of \$35,000,000 (or \$0.875 per share) be declared to the shareholders as at the same date.

On September 16, 2014, the holders of the Company entered into a stock purchase agreement to merge the Company with CIS Acquisition Ltd.

## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

CIS Acquisition Ltd. (“CIS”) is providing the following unaudited pro forma condensed combined financial information to aid you in your analysis of the financial aspects of the Acquisition.

The following unaudited pro forma condensed combined balance sheet combines the audited consolidated historical statement of financial position of Delta Advanced Materials Limited (“Delta”) as of June 30, 2014 with the unaudited historical balance sheet of CIS as of April 30, 2014, giving effect to the Acquisition as if it had been consummated as of June 30, 2014.

The following unaudited pro forma condensed combined statement of operations combines the audited historical statement of operations and comprehensive income of Delta for the year ended June 30, 2014 with the unaudited historical statement of operations of CIS for the year ended April 30, 2014, giving effect to the Acquisition as if it had occurred on July 1, 2013.

The historical financial information has been adjusted to give effect to the final events that are related and/or directly attributable to the Acquisition, are factually supportable and are expected to have a continuing impact on the combined results. The adjustments presented on the unaudited pro forma condensed combined financial statements have been identified and presented to provide relevant information necessary for an accurate understanding of the combined company upon consummation of the Acquisition.

The historical financial statements of Delta and CIS have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and presented in US Dollars. The unaudited pro forma condensed combined financial statements included herein are prepared under US GAAP and presented in US Dollars. Following the consummation of the Acquisition, the combined entity intends to prepare its consolidated financial statements under US GAAP and present such consolidated financial statements in US Dollars.

The historical financial information of Delta was derived from the audited financial statements of Delta for the years ended June 30, 2014, 2013 and 2012, included elsewhere in this Shell Company Report. The historical financial information of CIS was derived from the unaudited financial statements of CIS as of and for the six months ended April 30, 2014 and the audited financial statements of CIS for the year ended October 31, 2013, for the period from November 28, 2011 (inception) through October 31, 2012 and for the period from November 28, 2011 (inception) through October 31, 2013, included elsewhere in this Shell Company Report. This information should be read together with Delta’s and CIS’s financial statements and related notes, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Delta*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of CIS*” and other financial information included elsewhere in this Shell Company Report.

The unaudited pro forma condensed combined financial information is for illustrative purposes only. The financial results may have been different had the companies always been combined. You should not rely on the unaudited pro forma condensed combined financial information as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience.

In the Acquisition, CIS acquired 100% of the issued and outstanding equity interests of Elite Ride Limited (“Elite”), of which Delta is a wholly owned subsidiary. As a result, following the Acquisition, Delta became a wholly-owned subsidiary of CIS. In exchange, the holders of the all of the outstanding shares of Elite immediately prior to the Acquisition received consideration consisting of:

(i) 6,060,000 shares of CIS common stock (the “CIS Share Consideration”). Of the CIS Share Consideration, 4,560,000 shares were fully vested and issued upon the closing, and 1,500,000 shares (“Earnout Shares”) were issued and held in escrow, deemed not outstanding, and shall be released from escrow if the post merger Company’s adjusted net income (as defined) meets the targets as follows: (a) 500,000 shares shall be released from escrow based if the Company achieves Adjusted Net Income of at least \$8 million for the period starting July 1, 2014 and ending June 30, 2015, (b) 500,000 shares shall be released from escrow if the combined company achieves Adjusted Net Income of at least \$9.2 million for the period starting July 1, 2015 and ending June 30, 2016 and (c) 500,000 shares shall be released from escrow based if the combined company achieves Adjusted Net Income of at least \$10.6 million for the period starting July 1, 2016 and ending June 30, 2017.

(ii) upon the exercise of the CIS outstanding public warrants and warrants issued to the CIS Sponsor, the Company shall distribute the proceeds of any such exercise to the former holders of Delta, (as defined) (“Warrant Proceeds Consideration”). In connection with the Closing, 4,500,000 warrants owned by the CIS Sponsor (“Placement Warrants”) were amended to (a) provide that such Placement Warrants may be redeemed at a price of \$17.50 per share, and (b) provide that such Sponsor Warrants may not be exercised on a cashless basis, and

(iii) CIS and the CIS Sponsor entered into a call agreement (the “Call Agreement”) mutually acceptable to the Company, the former holders of Delta and the CIS Sponsor pursuant to which the Company shall be permitted, on a date which is between the 360th and 390th after the Closing Date, to require the CIS Sponsor to sell to it, at a price of \$5.00 per share, up to 1,500,000 shares of the Company’s common stock (the “Call Option”).

Concurrently with the Acquisition, CIS issued 500,000 shares of CIS Common Stock to Kyle Shostak and CIS Acquisition Holding Co. Ltd. (collectively, the “CIS Sponsor”) and (the “CIS Sponsor Shares”), proportionally in accordance with their ownership in CIS. In addition, if the 10 trading day volume weighted average price of the CIS Common Stock (the “VWAP”) is lower than \$5.00 per share on the principal stock exchange on which such stock is traded on the earlier to occur of (i) the 395th day after the closing and (ii) the 30th day after the SEC declares a registration statement filed by CIS effective during the first 12 months after the closing, then CIS will issue the CIS Sponsor, proportionally in accordance with their respective share ownership in CIS, an additional number of shares of CIS Common Stock equal to (i) \$5.00 minus the VWAP, divided by the VWAP, multiplied by (ii) the lesser of (a) 1,500,000 and (b) the total number of shares of CIS Common Stock owned by CIS Sponsor on such date. The total number of CIS Common Stock will be reduced by the number of shares CIS Sponsor sells during 13 months post-closing.

The pro forma balance sheet reflects the issuance of the CIS Acquisition Share Consideration and the CIS Sponsor Shares, but does not reflect the Warrant Proceeds Consideration or the shares which might be exchanged in connection with the Call Option.

Pursuant to the terms of the Acquisition, the holders of Delta or their affiliates purchased 500,000 shares of CIS’s Class A shares from public shareholders and Delta agreed that upon the closing, that it would have ) indebtedness for borrowed money not in excess of \$85,000,000, (b) no shareholder indebtedness (c) trade and other payables not in excess of \$40,000,000, (d) advances from customers not in excess of \$2,000,000, (e) tax and deferred tax liabilities not in excess of \$2,500,000, (f) dividend payable of \$35,000,000 and (g) not less than \$7,500,000 in unrestricted cash on the balance sheet post dividend.

As a result of the Acquisition, the former holders of Delta own approximately 72.0% of CIS’s common stock outstanding immediately after the Acquisition, and the other CIS stockholders own approximately 28.0% of CIS’s outstanding common stock, based on the number of shares of CIS common stock outstanding as of June 30, 2014.

The Acquisition was accounted for as a reverse acquisition in accordance with US GAAP. Under this method of accounting, CIS was treated as the “acquired” company for financial reporting purposes. This determination was primarily based on Delta comprising the ongoing operations of the combined entity, Delta senior management comprising the senior management of the combined company, and the former holders of Delta 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 Delta issuing stock for the net assets of CIS, accompanied by a recapitalization. The net assets of CIS will be stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Acquisition will be those of Delta.

Included in the weighted average shares outstanding as presented in the pro forma condensed combined financial statements are 4,560,000 shares of CIS common stock issued to the former holders of Delta in exchange for their shares in Delta. The weighted average shares outstanding exclude 1,500,000 shares that were issued and considered not outstanding, as such shares are subject to forfeiture. These shares are held in escrow.

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**CIS ACQUISITION LTD.****UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET****As of June 30, 2014**

	Note A Delta Advanced Materials Limited Ltd.	Note B CIS Acquisition Materials Limited Ltd.	Pro Forma Adjustment	Pro Forma Adjustments Note	Pro Forma Balance Sheet As Adjusted
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 9,045,950	\$ 12,648	41,622,401 (30,000 ) (36,400,000 ) (611,000 )	1 3 4 7	\$ 13,639,999
Restricted cash	22,855,107	-	-		22,855,107
Trade and other receivables	77,745,875	-	-		77,745,875
Prepaid expenses and other current assets	-	36,333	-		36,333
Inventories	14,062,567	-	-		14,062,567
Total current assets	123,709,499	48,981	4,581,401		128,339,881
Property, plant and equipment	76,439,788	-	-		76,439,788
Land use rights	5,724,636	-	-		5,724,636
Deferred tax assets	657,377	-	-		657,377
Restricted investments and cash equivalents held in trust account	-	41,622,401	(41,622,401 )	1	-
Total assets	\$ 206,531,300	\$ 41,671,382	\$(37,041,000 )		\$ 211,161,682
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Trade and other payables	\$ 35,850,810	\$ 191,674	-		\$ 36,042,484
Dividend payable	-	-	35,000,000	2	35,000,000
Advances from customers	1,776,624	-	-		1,776,624
Due to a shareholder	2,857,432	-	(2,857,432 )	8	-
Loan payable - related party	-	30,000	(30,000 )	3	-
Borrowings	81,377,050	-	-		81,377,050
Income tax payables	814,051	-	-		814,051
Deferred tax liabilities	1,020,209	-	-		1,020,209
Convertible bonds - current portion	27,375,750	-	(27,375,750 )	8	-
Total current liabilities	151,071,926	221,674	4,736,818		156,030,418

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Long-term liabilities:				
Warrant liability	-	3,185,000	-	3,185,000
Total long-term liabilities	-	3,185,000	-	3,185,000
Total liabilities	151,071,926	3,406,674	4,736,818	159,215,418
Class A shares, \$0.0001 par value, subject to possible redemption or tender	-	36,400,000	(36,400,000 ) 4	-
Stockholders' equity:				
Class A shares, \$0.0001 par value	-	164	(164 ) 4	-
Ordinary shares	-	-	164 4	704
			506 5	
			34 7	
Share Capital	8,852,713	-	(39,085,895 ) 5	-
			30,233,182 8	
Additional paid-in capital	-	5,563,747	39,085,389 5	40,338,899
			(3,699,203 ) 6	
			(611,000 ) 7	
			(34 ) 7	
Statutory reserves	6,196,949	-	-	6,196,949
Retained earnings	34,370,050	-	(35,000,000 ) 2	(629,950 )
Accumulated deficit	-	(3,699,203 )	3,699,203 6	-
Accumulated other comprehensive income	6,039,662	-	-	6,039,662
Total stockholders' equity	55,459,374	1,864,708	(5,377,818 )	51,946,264
Total liabilities and stockholders equity	\$ 206,531,300	\$ 41,671,382	\$ (37,041,000 )	\$ 211,161,682

See footnotes to unaudited pro forma condensed combined financial statements

**CIS ACQUISITION LTD.****UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS****For the Year Ended June 30, 2014**

	Note A Delta Advanced Materials Limited	Note B CIS Acquisition Ltd.	Pro Forma Adjustment Adjustment	Pro Forma Income Statement As Adjusted
Revenues	\$ 175,327,717	\$ -	\$ -	\$ 175,327,717
Cost of Sales	157,904,729	-	-	157,904,729
Gross Profit	17,422,988	-	-	17,422,988
Operating expenses:				
Selling expenses	2,306,021	-	-	2,306,021
Legal and professional fees	-	306,326	-	306,326
Office expense - related party	-	90,000	-	90,000
General and administrative expenses	3,482,027	55,293	-	3,537,320
Total operating expenses	5,788,048	451,619	-	6,239,667
Income (loss) from operations	11,634,940	(451,619 )	-	11,183,321
Other income (expense):				
Change in fair value of warrants	-	810,000	-	810,000
Interest expense	(4,000,626 )	-	1,080,000	(2,920,626 )
Interest income	1,948,743	15,420	-	1,964,163
Change in fair value of convertible bonds	(156,199 )	-	156,199	-
Other gains/(loss) - net	7,929	-	-	7,929
Income before income taxes	9,434,787	373,801	1,236,199	11,044,787
Income taxes	(2,606,479 )	-	(341,516 )	(2,947,995 )
Net income	\$ 6,828,308	\$ 373,801	\$ 894,683	\$ 8,096,792
Other comprehensive income:				
Foreign currency translation adjustments	316,439	-	-	316,439
Comprehensive income	\$ 7,144,747	\$ 373,801	\$ 894,683	\$ 8,413,231
Basic net loss per share		\$ 0.23		\$ 1.20
Diluted net loss per share		\$ 0.23		\$ 1.20
Weighted average number of common shares outstanding - basic		1,636,000	5,397,059	7,033,059

Weighted average number of common shares outstanding - diluted	1,636,000	5,397,059	4	7,033,059
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See footnotes to unaudited pro forma condensed combined financial statements

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**Pro Forma Adjustments to the Unaudited June 30, 2014 Audited Condensed Combined Balance Sheet**

- (A) Derived from the audited balance sheet of Delta as of June 30, 2014.
  - (B) Derived from the balance sheet of CIS as of April 30, 2014
- 
- (1) To liquidate investments held in trust by CIS.
  - (2) To record the dividend payable of \$35,000,000 declared by Delta.
  - (3) To record payment of related party loans payable of \$30,000, net, due to CIS Acquisition Holding Co. Ltd. The balance of the related party loans as of the date of the pro forma were \$150,000.
  - (4) To reflect the use of cash in connection with the redemption of 3,500,000 Class A shares held by CIS public shareholders at \$10.40 per share and the recharacterization of the remaining 1,636,000 Class A shares to ordinary shares.
  - (5) To reflect the recapitalization of Delta through the issuance of 4,560,000 shares of CIS's common stock, excluding 1,500,000 Earnout Shares held in escrow. Concurrently, with the Acquisition, CIS issued 500,000 shares of common stock to the CIS sponsor.
  - (6) To eliminate the historical accumulated deficit of CIS of \$3,699,203, the accounting acquiree.
  - (7) To reflect the cash payment of estimated legal, financial advisory, accounting, printing and other professional fees and expenses incurred in connection with the Acquisition and to record the issuance of 337,059 shares of common stock to Chardan Capital Markets as M&A Advisory Compensation, valued at \$3,464,967, or \$10.28 per share (based upon the closing price of the CIS common stock on June 30, 2014).
  - (8) To reflect the issuance of Delta Share Capital in exchange for the full amount of the convertible bonds and the amount due to shareholder, as if the exchange occurred on July 1, 2013.

**Pro Forma Adjustments to the Unaudited Condensed Combined Income Statement**

- (A) Derived from the audited statement of comprehensive income of Delta for the year ended June 30, 2014.
  - (B) Derived from the statement of operations of CIS for the six months ended April 30, 2014 and the year ended October 31, 2013.
- 
- (1) Adjustment to reduce interest expense for the convertible bonds which were exchanged for Delta Share Capital, as if the transfer occurred on July 1, 2013.
  - (2) Adjustment to remove the change in fair value of convertible bonds, because the convertible bonds were exchanged for Delta Share Capital, as if the exchange occurred on July 1, 2013.
  - (3) Adjustment to increase income taxes for the increase in pro forma income before income taxes. The additional income tax expense was derived using the Company's effective income tax rate of 28%.

**Pro Forma Adjustments to the Unaudited Condensed Combined Income Statement**

As the Acquisition is being reflected as if it had occurred at the beginning of the period presented, the calculation of weighted average shares outstanding for basic and diluted net income (loss) per share assumes that the shares (4) issued relating to the Acquisition have been outstanding for the entire period presented. In this calculation, the shares redeemed were retroactively adjusted to eliminate such shares for the entire period. Weighted average common shares outstanding – basic and diluted is calculated as follows:

CIS Acquisition public shares held by Delta's investors	500,000	Combined
Adjustment to public shares	(500,000 )	
CIS Acquisition public shares redeemed	(3,500,000)	
CIS Acquisition public shares outstanding - IPO	4,000,000	
CIS Acquisition shares outstanding - Founders	1,136,000	
CIS Acquisition shares issued in merger to Delta investors - fully vested upon issuance	4,560,000	
CIS Acquisition shares issued in merger to CIS Founders	500,000	
CIS Acquisition shares issued as finders fee to Chardan	337,059	
Shares outstanding	7,033,059	
Of the Weighted Average Shares:		
Percent of shares owned by Delta investors	72	%
Percent of shares owned by other CIS stockholders, including public and others	28	%
Weighted average shares calculation:		
Delta Investors (excluding forfeitable shares)	5,060,000	
CIS shares owned by other CIS stockholders, including public shares and others	1,973,059	
Weighted average shares, basic and diluted	7,033,059	

The computation of diluted income per share excludes the effect of warrants to purchase 8,500,000 common stock and the underwriter's option to purchase 280,000 Units because it could not be assumed for the period presented that the market price would have exceeded the strike price for these instruments.

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
1.1(1)	Memorandum and Articles of Association
1.2(1)	Amended and Restated Memorandum of Association
1.3(1)	Amended and Restated Articles of Association
2.1(1)	Specimen Unit Certificate
2.2(1)	Specimen Class A Share Certificate
2.3(1)	Specimen Class B Share Certificate
2.4(1)	Specimen Class C Share Certificate
2.5(1)	Specimen Public Warrant Certificate
2.6(1)	Specimen Placement Warrant Certificate
2.7(1)	Form of Warrant Agreement
2.8(1)	Form of Unit Purchase Option
4.1(1)	Form of Underwriting Agreement
4.2(1)	Form of Letter Agreement by and among the Registrant, Chardan Capital Markets, LLC and the founders
4.3(1)	Form of Investment Management Trust Agreement between American Stock Transfer & Trust Company, LLC, and the Registrant
4.4(1)	Form of Securities Escrow Agreement between the Registrant, American Stock Transfer & Trust Company, LLC, the Founders, Chardan Capital Markets, LLC, C&Co/PrinceRidge LLC, Euro Pacific Capital, Inc. and Maxim Group LLC
4.5(1)	Form of Services Agreement between the Registrant and Chardan Capital Markets, LLC
4.6(1)	Form of Registration Rights Agreement among the Registrant and the Founders
4.7(1)	Form of Placement Warrant Purchase Agreement between the Registrant and the founders
4.8(1)	Promissory Note, dated February 13, 2012, issued by the Registrant to Intercarbo Holding AG
4.9(1)	Agreement, dated January 10, 2012, among the Registrant, Kyle Shostak and CIS Acquisition Holding Co. Ltd.
4.10(1)	Promissory Note, dated April 30, 2012, issued by the Registrant to Intercarbo Holding AG
4.11(1)	Promissory Note, dated July 16, 2012, issued by the Registrant to Intercarbo Holding AG
10.1(2)	Form of Underwriter Share Purchase Agreement among the Registrant, Chardan Capital Markets, LLC, C&Co/PrinceRidge LLC, Euro Pacific Capital, Inc. and Maxim Group LLC
10.2	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
10.3	Registration Rights Agreement by and among CIS Acquisition Ltd. and the holders of Elite Ride Limited, dated September 19, 2014
10.4	Voting Agreement by and among CIS Acquisition Ltd., Elite Ride Limited, Delta Advanced Materials Limited, and certain shareholders of Elite Ride Limited dated September 19, 2014
11.1(1)	Call Agreement by and among CIS Acquisition Ltd. and CIS Sponsors dated September 19, 2014
12.1	Code of Ethics
12.2	Certification of the Chief Executive Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
13.1	Certification of the Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended
	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



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- 13.2 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
- 99.1(1) Audit Committee Charter
- 99.2(1) Compensation Committee Charter
- 99.3(1) Governance and Nominating Committee Charter

(1) Incorporated by reference to the registrant's Registration Statement on Form F-1 (File No. 333-180224).

(2) Incorporated by reference to the registrant's Form 6-K (File No. 001-35755) filed on September 19, 2014.