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ADVANCED BATTERY TECHNOLOGIES, INC.  
Form 10QSB  
August 22, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2005

Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period to

Commission File No. 0-13337

ADVANCED BATTERY TECHNOLOGIES, INC.

-----  
(Name of Small Business Issuer in Its Charter)

DELAWARE

22-2497491

-----  
(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

136-14 Northern Blvd., Suite 8E, Flushing, NY 11354

-----  
(Address of principal executive offices)

718-359-6866

-----  
(Issuer's telephone number, including area code)

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

The number of shares outstanding of each of the issuer's class of equity as of the latest practicable date is stated below:

| Title of each class of Common Stock      | Outstanding as of August 18, 2005 |
|--|-----------------------------------|
| -----<br>Common Stock, \$0.001 par value | 25,337,116                        |

Transitional Small Business Disclosure Format (check one): Yes  No

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### PART I - FINANCIAL INFORMATION

#### ADVANCED BATTERY TECHNOLOGIES, INC. CONSOLIDATED BALANCE SHEET

|  |    | June 30, 2005 |
|--|----|---------------|
|  |    | -----         |
|  |    | (Unaudited)   |
|  |    | USD           |
| <b>ASSETS</b>  |    |               |
| Current assets   |    |               |
| Cash and cash equivalents                                    | \$ | 29,985        |
| Accounts receivable  |    | 60            |
| Inventories  |    | 367,075       |
| Prepayments, deposits and other receivable                   |    | 1,138,474     |
|  |    | -----         |
| Total current assets   |    | 1,535,594     |
| Property, plant and equipment, net                           |    | 8,858,763     |
| Construction in process                                      |    | 3,109,394     |
| Deposits for acquisition of property, plant and<br>equipment |    | 185,484       |
| Rights to use land and power, net                            |    | 420,789       |
| Patents, net   |    | 2,310,386     |
| Prepaid expenses   |    | 3,149,982     |
|  |    | -----         |
| Total assets   | \$ | 19,570,392    |
|  |    | =====         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                  |    |               |
| Current liabilities  |    |               |
| Accounts payable   | \$ | 108,357       |
| Accrued expenses and other payables                          |    | 315,376       |
| Notes payable  |    | 362,450       |
| Other loans payable  |    | 301,780       |
| Current maturities of long-term debts                        |    | 1,844,582     |

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|  |               |
|--|---------------|
| Customer deposits                          | 1,395,822     |
| Welfare payable                            | 80,250        |
|  | -----         |
| Total current liabilities                  | 4,408,617     |
| Long-term debts, less current maturities   | 1,209,277     |
|  | -----         |
| Total liabilities                          | 5,617,894     |
|  | -----         |
| Minority interests                         | 3,639,770     |
|  | -----         |
| Stockholders' equity                       |               |
| Common stock (Note 3)                      | 25,337        |
| Additional paid-in capital                 | 13,944,707    |
| Accumulated deficit                        | (3,684,802)   |
| Accumulated other comprehensive income     | 27,486        |
|  | -----         |
| Total stockholders' equity                 | 10,312,728    |
|  | -----         |
| Total liabilities and stockholders' equity | \$ 19,570,392 |
|  | =====         |

See the accompanying notes to the unaudited consolidated financial statements.

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ADVANCED BATTERY TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Three months ended<br>June 30, |                            | Six months ended<br>June 30, |                            |
|---|--------------------------------|----------------------------|------------------------------|----------------------------|
|   | 2005<br>(Unaudited)<br>USD     | 2004<br>(Unaudited)<br>USD | 2005<br>(Unaudited)<br>USD   | 2004<br>(Unaudited)<br>USD |
| Revenue                                 | \$ 236,360                     | \$ 492,666                 | \$ 267,767                   | \$ 968,675                 |
| Cost of sales                           | (156,205)                      | (343,552)                  | (180,370)                    | (610,118)                  |
| Gross profit                            | 80,155                         | 149,114                    | 87,397                       | 358,557                    |
| Other income                            | 578                            | 6                          | 1,379                        | 105                        |
| Selling expenses                        | (5,255)                        | (6,637)                    | (8,251)                      | (13,742)                   |
| General and administrative expenses     | (476,723)                      | (103,452)                  | (918,562)                    | (348,119)                  |
| Research and development costs          | (25,514)                       | (13,184)                   | (25,514)                     | (37,017)                   |
| Interest expense                        | (61,690)                       | (781)                      | (110,406)                    | (7,872)                    |
| (Loss)/income before minority interests | (488,449)                      | 25,066                     | (973,957)                    | (48,088)                   |
| Minority interests                      | 31,529                         | (7,520)                    | 80,746                       | 14,426                     |
| Net (loss)/income                       | \$ (456,920)                   | \$ 17,546                  | \$ (893,211)                 | \$ (33,662)                |

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|  | =====      | =====     | =====      | =====      |
|--|------------|-----------|------------|------------|
| Net (loss)/income per share<br>(Note 5)          | \$ (0.019) | \$ 0.002  | \$ (0.039) | \$ (0.004) |
| Weighted average number of<br>shares outstanding | 24,599,753 | 9,697,474 | 23,050,807 | 9,419,302  |

See the accompanying notes to the unaudited consolidated financial statements.

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ADVANCED BATTERY TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Six months ended June 30, |             |
|---|---------------------------|-------------|
|   | 2005                      | 2004        |
|   | (Unaudited)               | (Unaudited) |
|   | USD                       | USD         |
| Cash flows from operating activities :  |                           |             |
| Net loss  | \$ (893,211)              | \$ (33,662) |
| Adjustments to reconcile net loss to<br>net cash (used in)/provided by<br>operating activities: |                           |             |
| Depreciation and amortization   | 119,377                   | 80,292      |
| Amortization of prepaid expenses  | 677,052                   | -           |
| Minority interests  | (80,746)                  | (14,426)    |
| Changes in operating assets and<br>liabilities :  |                           |             |
| Decrease/(increase) in accounts<br>receivable   | 258                       | (318,973)   |
| Increase in inventories   | (132,944)                 | (133,716)   |
| (Increase)/decrease in prepayments,<br>deposits and other receivable                            | (833,624)                 | 38,287      |
| Increase in accounts payable, accrued<br>expenses and other payable                             | 78,287                    | 379,665     |
| Increase in customer deposits   | 579,317                   | 227,731     |
| Increase in welfare payable   | 22,223                    | 17,362      |
| Net cash (used in)/provided by operating<br>activities  | (464,011)                 | 242,560     |
| Cash flows from investing activities :  |                           |             |
| Purchase of property, plant and equipment   | (3,067,158)               | (127,875)   |
| Additions to construction in process  | (1,148,454)               | (504,008)   |
| Purchase of patents   | -                         | (5,065)     |
| Net cash used in investing activities   | (4,215,612)               | (636,948)   |
| Cash flows from financing activities :  |                           |             |
| Net proceeds from issuance of common<br>stocks  | 3,383,084                 | -           |
| Repayment from officers   | -                         | 90,788      |
| (Decrease)/increase in other loans payable  | (27,788)                  | 285,913     |
| Decrease in other loans receivable  | -                         | 35,249      |
| Increase in long-term debts   | 594,116                   | 10,421      |

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|  |           |           |
|--|-----------|-----------|
| Net cash provided by financing activities            | 3,949,412 | 422,371   |
|  | -----     | -----     |
| Net (decrease)/increase in cash and cash equivalents | (730,211) | 27,983    |
| Effect of foreign exchange rate changes              | 2,181     | -         |
| Cash and cash equivalents, beginning of period       | 758,015   | 8,063     |
|  | -----     | -----     |
| Cash and cash equivalents, end of period             | \$ 29,985 | \$ 36,046 |
|  | =====     | =====     |

See the accompanying notes to the unaudited consolidated financial statements.

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ADVANCED BATTERY TECHNOLOGIES, INC.  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

- (i) The accompanying consolidated financial statements of Advanced Battery Technologies, Inc. ("ABAT") and its subsidiaries (the "Group") have been prepared in accordance with generally accepted accounting principles in the United States of America for interim consolidated financial information. Accordingly, they do not include all the information and notes necessary for comprehensive consolidated financial statements.

In the opinion of the management of ABAT, all adjustments necessary for a fair presentation of the financial position and the results of operations and cash flows for the interim periods have been included. Interim results are not necessarily indicative of results for a full year.

- (ii) The Company has two subsidiaries, Cashtech Investment Limited ("Cashtech"), a British Virgin Island corporation, and Heilongjiang ZhongQiang Power-Tech Co., Ltd. ("ZQ Power-Tech"). ZQ Power-Tech is a limited liability company established in the People's Republic of China (the "PRC") in which Cashtech owns 51.2% interest as of June 30, 2005.
- (iii) On March 1, 2004, the previous stockholders holding 70% ownership of ZQ Power-Tech agreed to the transfer of their shares to obtain 100% ownership in Cashtech. Cashtech is the legal parent of ZQ Power-Tech since inception, with the transaction being treated as a reverse merger and recapitalization of ZQ Power-Tech, which is treated as the accounting acquirer.

On May 6, 2004, ABAT completed a share exchange with the stakeholders of Cashtech. This share exchange has been treated as a reverse takeover with Cashtech taken as the accounting acquirer and ABAT as the accounting acquiree.

The purchase method under reverse takeover accounting has been applied for the above two share exchanges. These consolidated financial statements issued under the name of the legal parent, ABAT, are a continuation of the financial statements of ZQ Power-Tech.

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(iv) The Group has an accumulated deficit as at June 30, 2005. However, based on the substantial backlog of orders of approximately \$29 million that the Group has accumulated, the management of the Group believes that these orders will generate sufficient revenue and cash flows to enable the Group to continue as a going concern.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set forth in the section "Summary of significant accounting policies" of the consolidated financial statements of the Company included in the Company's Form 10-KSB submitted to the United States Securities and Exchange Commission on March 31, 2005.

#### NEW ACCOUNTING PRONOUNCEMENT

In May 2005, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 154 "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". This statement replaces APB Opinion No. 20 "Accounting Changes" and FASB Statement No. 3 "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. It applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement which does not include specific transition provisions. FASB No. 154 requires

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retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this statements requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date applicable.

The adoption of the statement had no impact on the Company's results of operation or financial position.

### 3. COMMON STOCK

|                                      | No. of shares       | Amount<br>USD      |
|--------------------------------------|---------------------|--------------------|
|                                      |                     |                    |
| Authorized :-                        |                     |                    |
| Common stock at USD0.001 par value   | 60,000,000<br>===== | \$ 60,000<br>===== |
| Issued and outstanding :-            |                     |                    |
| At January 1, 2005                   | 12,940,169          | \$ 12,940          |
| Shares issued for settlement of loan |                     |                    |

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|   |            |           |
|---|------------|-----------|
| (Note 3(i))                                   | 11,276,947 | 11,277    |
| Shares issued to a consultant<br>(Note 3(ii)) | 20,000     | 20        |
| Shares issued to employees<br>(Note 3(iii))   | 1,100,000  | 1,100     |
|   | -----      | -----     |
| At June 30, 2005                              | 25,337,116 | \$ 25,337 |
|   | =====      | =====     |

Notes :-

- (i) On January 20, 2005, the Company entered into a contract with its chairman, Zhiguo Fu, as well as Zhijie Fu and Wenhua Yang. The contract acknowledged that these three individuals had provided \$4,832,976 to fund the construction of plant facilities owned by ZQ Power-Tech. Since the Company has a 70% interest in ZQ Power-Tech, the contract provided that the Company would issue a total of 11,276,947 shares of common stock to satisfy \$3,383,084 (i.e. 70%) of the loan from the three individuals to ZQ Power-Tech. The number of shares to be issued was based upon US\$0.30 per share, which represented the closing price of the Company's common stock on the Over-the-Counter Bulletin Board on January 19, 2005.
- Accordingly, the Company issued 11,276,947 shares of common stock to the three individuals on January 20, 2005. The excess of the loan amount over the par value of the stock issued was included in additional paid-in capital.
- (ii) The Company entered into an agreement with a consultant for the provision of consultancy services in connection with the operation of the businesses of the Company for a period from January 24, 2005 to June 30, 2005. As full compensation for the services to be rendered, the Company issued to the consultant 20,000 shares of its common stock on January 24, 2005. An amount of \$10,380, which represents the aggregate fair value of the shares in excess of par value, was included in additional paid-in capital.
- (iii) On June 1, 2005, 1,100,000 shares of common stock were issued to 4 employees of the Company for the provision of services for a term of five years commencing on the same date. An amount of \$2,022,900, which represents the aggregate fair value of the shares in excess of par value, was included in additional paid-in capital. The aggregate fair value of the issued common stock of \$2,024,000 was

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included in prepaid expenses which will be amortized on a straight-line basis over the terms of services.

#### 4. GAIN ON DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

On May 31, 2005, ZQ Power-Tech issued 18,350,000 shares of stock with par value of RMB1 each to Mr. Fu Zhiguo in return for a patent transferred by Mr. Fu. The patent was appraised by a PRC appraiser to have a value of \$2,216,987 (equivalent to RMB18,350,000) on May 25, 2005. As a result, the Company's interest in ZQ Power-Tech was diluted from 70% to 51.2% at the same date, which constituted a deemed disposal by the Company of its partial interest in ZQ Power-Tech.

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An amount of \$158,584, which represents the net increase in the Company's share of the net assets in ZQ Power-Tech as a result of the aforementioned issuance of stock, was included in additional paid-in capital due to the nature of the transaction being between related parties.

### 5. NET (LOSS)/INCOME PER SHARE

- (i) The basic net (loss)/income per share is calculated using the net (loss)/income and the weighted average number of common stock outstanding during the interim periods.

|   | Three months ended<br>June 30, |            | Six months ended<br>June 30, |              |
|---|--------------------------------|------------|------------------------------|--------------|
|   | -----<br>2005                  | 2004       | -----<br>2005                | 2004         |
| Net (loss)/income                                   | USD (456,920)                  | USD 17,546 | USD (893,211)                | USD (33,662) |
|   | =====                          | =====      | =====                        | =====        |
| Weighted average<br>number of shares<br>outstanding | 24,599,753                     | 9,697,474  | 23,050,807                   | 9,419,302    |
|   | =====                          | =====      | =====                        | =====        |
| Basic net (loss)/income<br>per share                | USD (0.019)                    | USD 0.002  | USD (0.039)                  | USD (0.004)  |
|   | =====                          | =====      | =====                        | =====        |

- (ii) The diluted net loss per share is not presented as there was no dilutive effect for both interim periods.

### 6. SUPPLEMENTAL CASH FLOW INFORMATION

|               | Six months ended June 30, |       |
|---------------|---------------------------|-------|
|               | -----<br>2005             | 2004  |
|               | USD                       | USD   |
| Interest paid | 110,406                   | 7,872 |
|               | =====                     | ===== |
| Income taxes  | -                         | -     |
|               | =====                     | ===== |

Other than the above-mentioned information, during the six months ended June 30, 2005, the Group had the following non-cash transactions :-

- (i) The Company issued 20,000 of its common stock to a consultant for the provision of consultancy work, the details of which are set out in note 3(ii).
- (ii) The Company issued a total of 1,100,000 of its common stock to 4 employees for the provision of services, the details of which are set out in note 3(iii).

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- (iii) The acquisition of a patent of \$2,216,987 was settled by the issuance of stock by ZQ Power-Tech, the details of which are set out in note 4.



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### 7. COMMITMENTS

- (i) At June 30, 2005, the Group had capital commitments amounting to \$78,582 in respect of acquisition of property, plant and equipment which are contracted for but not provided in the financial statements.
- (ii) At June 30, 2005, the Group had agreed to pay \$132,898 to Harbin Institute of Technology for the research and development of polymer lithium-ion batteries for motor vehicles.

### 8. WARRANTIES

The Group warrants that all batteries manufactured by it will be free from defects in material and workmanship under normal use for a period of one year from the date of shipment. The Group's experience for costs and expenses in connection with such warranties has been minimal and during the six months ended June 30, 2005, no amounts have been considered necessary to reserve for warranty costs.

### 9. RELATED PARTY TRANSACTIONS

Apart from the acquisition of the patent from Mr. Fu as referred to in note 4 above, during the period ended June 30, 2005, the Group sold goods amounting to \$236,360 to a related company in which a director of the Company has a controlling interest. The sales transaction was entered into in the normal course of business and on normal commercial terms.

### Item 1. Management's Discussion and Analysis or Plan of Operation Forward Looking Statements

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include statements regarding our capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. Readers are cautioned that there are risks and uncertainties which may cause actual future results to differ from the results anticipated in these forward-looking statements. A detailed discussion of some of the risks that may cause such a difference has been set forth in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 in the section numbered "Item 6" under the heading "Risk Factors That May Affect Future Results." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We disclaim any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements.

#### RECENT BUSINESS EVENTS

##### Business Overview

Advanced Battery Technologies, Inc. is a holding company with one subsidiary: Cashtech Investment Limited, a British Virgin Islands corporation. Cashtech Investment Limited has only one asset, which is 51.2% of the capital stock of Heilongjiang ZhongQiang Power-Tech Co., Ltd.,

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a China limited liability company ("ZQ Power-Tech").

ZQ Power-Tech designs, manufactures and markets rechargeable polymer lithium-ion ("PLI") batteries. PLI batteries produce a relatively high

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average of 3.8 volts per cell, which makes them attractive in terms of both weight and volume. Additionally, they can be manufactured in very thin configurations and with large footprints. PLI cells can be configured in almost any prismatic shape, and can be made thinner than 0.0195 inches (0.5 mm) to fill virtually any shape efficiently. The Company's products include rechargeable PLI batteries for electric automobiles, motorcycles, mine-use lamps, notebook computers, walkie-talkies and other personal electronic devices.

ZQ Power-Tech focused its initial marketing activities in Southeast Asia, primarily China, Taiwan and Japan in 2004. After we expanded our manufacturing capacity in April 2005, ZQ Power-Tech started to expand its marketing efforts in North America and worldwide. In June 2005, ZQ Power Tech. started to establish a network of sales offices in the Middle East and Africa by an agreement with IGT, Inc. of Dubai, U.A.E.

### ABAT's Holding Percentage Changed

On May 31, 2005, ZQ Power-Tech issued 18,350,000 shares of stock with par value of RMB1 each to Mr. Fu Zhiguo in return for a patent transferred by Mr. Fu. The patent was appraised by a PRC appraiser to have a value of \$2,216,987 (equivalent to RMB18,350,000) on May 25, 2005. The patent provides ZQ Power Tech with the core technology that distinguishes its batteries from those of competitors. As a result of the transaction, the Company's interest in ZQ Power-Tech was diluted from 70% to 51.2% at the same date, which constituted a deemed disposal by the Company of its partial interest in ZQ Power-Tech

### Resume Production in New Factory

On April 12, 2005, the company resumed production in its newly built factory in Heilongjiang, China with three production lines, two of which are newly built. The new factory has a daily PLI battery production capacity of 50,000 AH per 8-hour shift, ten times the capacity of the pre-existing plant. The old facility is being converted into an R&D laboratory.

### Strategic Partnership

In August 2005, the company signed a letter of intent with ECr Technologies, Inc. of San Jose to jointly develop an all-electric bus. Their joint venture will focus on maximizing the number of parts specifically designed for electric buses so that the bus will be more competitive with alternative drive systems, such as traditional buses or hybrids. ABAT will supply the batteries, including the battery management and charging systems.

### Intellectual Property

In June 2005, the company filed a US patent application for its Nano-Lithium-Ion (NLI) battery. ABAT has been developing a new PLI battery using Lithium Titanate Spinel Electrode Nanomaterials provided by Altair Nanotechnologies, Inc. and has developed a method for incorporating the nanomaterials into its PLI battery that is included in its patent

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application.

### New Employees Training

Because of the 900 new employees, the company will need 6 months to finish the training process. The manufacture capacity couldn't reach the maximum level until these new employees become skilled workers. During the training process, the company arranged one skilled worker to train 3 new employees during the daily manufacturing. The training process will finish by this August.

### RESULTS OF OPERATIONS

#### Revenues

Revenues for the three months ended June 30, 2005 were \$ 236,360, and for the three months ended June 30, 2004 were \$492,666. The decrease was due to the training process to the 900 new employees. During the training process, the company arranged one skilled worker to train 3 new employees during the daily manufacturing. The training process will be finished by this August. Therefore, the new production lines couldn't reach the anticipated manufacture capacity and the company couldn't manufacture enough products for shipment.

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Revenues for the six months ended June 30, 2005 were \$267,767., compared to revenues of \$968,675 during the first six months of 2004. During the first quarter of this year, the Company closed its production lines to focus on completion of its new production facility. As a result, revenues during the first quarter were minimal. The new production facility commenced operations in April 2005; however production is increasing only slowly, as the new staff is being trained.

#### Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended June 30, 2005 were \$481,978 and for the three months ended June 30, 2004 were \$110,089. Likewise, the Company incurred selling, general and administrative expenses of \$926,813 in the six months ended June 30, 2005, compared to selling, general and administrative expenses of \$361,861 in the first six months of 2004. The increase during 2005 was due to the expansion of facilities, the increase of employees and the amortization of prepaid expenses attributable to compensation to certain consultants and employees that were prepaid by the Company by issuing common stock to them.

#### Net Loss

Net loss for the three months ended June 30, 2005 was \$456,920, compared to net income of \$17,546 realized in the three months ended June 30, 2004. Net loss for the six months ended June 30, 2005 was \$893,211, compared to a net loss of \$33,662 in the six months ended June 30, 2004. The increase of net loss was due to the increase of expenses related to capacity expansion, the decrease of revenue and the amortization of prepaid expenses.

### LIQUIDITY AND CAPITAL RESOURCES

Until December 2004, the development and initial operations of ZQ Power-Tech were financed primarily by contributions to capital made by

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Zhiguo Fu, the Company's Chairman. On December 1, 2004, ZQ Power-Tech entered into a Loan Agreement with Harbin Commercial Bank, and received a loan of RMB20 million (approximately \$2.4 million). The Loan Agreement requires that half of the principal be paid in a balloon in November 2005 and half in November 2006. Interest at 8.064% per annum is payable monthly. \$1.9 million of the obligation is secured by a pledge of ZQ Power-Tech's manufacturing facilities; the remainder of the debt is secured by a pledge of our realty assets.

The arrangement with Harbin Commercial Bank provided ZQ Power-Tech with working capital. Nevertheless, the expansion of its manufacturing facilities that has been ongoing since early 2004 required that Mr. Fu and two business associates contribute \$4,832,976 to fund construction. In January 2005 Advanced Battery compensated Mr. Fu and his associates for 70% of that contribution by issuing them a total of 11,276,947 common shares. The remaining 30% of the cash was treated as a contribution to the capital of ZQ Power-Tech, 30% of which was owned by Mr. Fu at that time.

Despite its negative working capital, ZQ Power-Tech has sufficient liquidity to fund its near-term operations. The principal capital resource available is \$12,574,430 in property, plant and equipment, construction in process, related deposits and real property rights, which ZQ Power-Tech owns subject only to the Harbin Commercial Bank lien for \$2.4 million. Based on the substantial backlog of orders that ZQ Power-Tech has accumulated, it believes that additional secured financing will be available to it on favorable terms when needed. Until then, if short-term cash shortages occur, Mr. Fu has committed to provide financing as needed.

Based upon the financial resources available to ZQ Power-Tech, management believes that it has sufficient capital and liquidity to sustain operations for the foreseeable future.

### Item 3. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The evaluation was undertaken in consultation with our accounting personnel. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, given our limited operations, our disclosure controls and procedures are currently effective to ensure that information required to be disclosed by us in the reports that it files or submits under the Securities Exchange Act of 1934

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is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. As we develop new business or if we engage in an extraordinary transaction we will review our disclosure controls and procedures and make sure that they are adequate.

We made no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial officers. We have also undertaken to periodically review our disclosure controls and procedures and internal controls for adequacy and effectiveness.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Small Business Issuer Purchase of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Submission of Matters To a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibits

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADVANCED BATTERY TECHNOLOGIES, INC.  
(Registrant)

Date: August 19, 2005

By: /s/ Zhiguo Fu

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Name: Zhiguo Fu  
Title: Chief Executive Officer and  
Chairman of the Board

Date: August 19, 2005

By: /s/ Guohua Wan

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Name: Guohua Wan  
Title: Chief Financial Officer