CHINA BAK BATTERY INC
Form 10-Q
August 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10–Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **June 30, 2012**

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

For the transition period from _____________ to _____________

Commission File Number: **001-32898**

CHINA BAK BATTERY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**88-0442833**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

BAK Industrial Park
No. 1 BAK Street
Kuichong Town, Longgang District
Shenzhen 518119
People s Republic of China
(Address of principal executive offices, Zip Code)

(86-755) 6188-6818, ext. 6856
(Registrant s telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

The number of shares outstanding of each of the issuer s classes of common stock, as of August 9, 2012 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	**63,816,276**

CHINA BAK BATTERY, INC.

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PART I
FINANCIAL INFORMATION

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CHINA BAK BATTERY, INC. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

China BAK Battery, Inc. and subsidiaries
Condensed interim consolidated balance sheets
As of September 30, 2011 and June 30, 2012
(In US$)

	Note	*September 30, 2011*	*June 30, 2012 (Unaudited)*
Assets			
Current assets			
Cash and cash equivalents		$ 24,858,239	$ 13,076,141
Pledged deposits	2	5,725,587	4,668,983
Trade accounts receivable, net	3	88,261,267	89,593,768
Inventories, net	4	67,140,968	59,994,029
Prepayments and other receivables	5	5,242,418	13,603,398
Deferred tax assets, net		6,000,450	3,956,360
Total current assets		197,228,929	184,892,679
Property, plant and equipment, net	6	243,238,114	234,903,757
Lease prepayments, net		32,730,707	32,161,291
Intangible assets, net		295,136	756,318
Deferred tax assets, net		1,749,045	1,718,013
Total assets		$ 475,241,931	$ 454,432,058

See accompanying notes to the condensed interim consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Condensed interim consolidated balance sheets
As of September 30, 2011 and June 30, 2012 (continued)
(In US$)

	Note		*September 30, 2011*		*June 30, 2012 (Unaudited)*
Liabilities					
Current liabilities					
Short-term bank loans	7	$	139,706,153	$	146,324,504
Current maturities of long-term bank loans	8		23,495,136		-
Accounts and bills payable			118,423,415		131,435,208
Accrued expenses and other payables			20,975,742		38,841,217
Total current liabilities			302,600,446		316,600,929
Long-term bank loans, less current maturities	8		14,975,142		23,398,121
Other long-term loan	9		2,457,309		2,468,600
Deferred revenue	10		7,455,790		7,301,222
Other long-term payables	11		11,731,738		12,221,648
Deferred tax liabilities			747,666		751,101
Total liabilities			339,968,091		362,741,621
Commitments and contingencies	15				
Shareholders equity					
Common stock US$ 0.001 par value;					
100,000,000 authorized; 63,816,276 issued and outstanding as of September 30, 2011 and June 30, 2012			63,817		63,817
Donated shares			14,101,689		14,101,689
Additional paid-in capital			126,135,472		126,791,414
Statutory reserves			7,645,303		7,786,157
Accumulated deficit			(44,410,240)		(89,594,957)
Accumulated other comprehensive income			35,804,409		36,608,927
			139,340,450		95,757,047
Less: Treasury shares			(4,066,610)		(4,066,610)
Total shareholders equity			135,273,840		91,690,437
Total liabilities and shareholders equity		$	475,241,931	$	454,432,058

See accompanying notes to the condensed interim consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Condensed interim consolidated statements of operations and comprehensive loss
For the three months ended June 30, 2011 and 2012
(Unaudited)
(In US$)

	Three months ended June 30, 2011	*Three months ended June 30,* 2012
Net revenues	$ 47,129,641	$ 46,843,965
Cost of revenues	(43,536,733)	(51,906,863)
Gross profit / (loss)	3,592,908	(5,062,898)
Operating expenses:		
Research and development expenses	(1,838,866)	(1,613,275)
Sales and marketing expenses	(2,042,334)	(2,256,661)
General and administrative expenses	(5,042,344)	(11,924,301)
Impairment charge	-	(3,616,508)
Total operating expenses	(8,923,544)	(19,410,745)
Operating loss	(5,330,636)	(24,473,643)
Finance costs, net	(2,710,601)	(2,799,237)
Government grant income	404,755	19,507
Other income / (expenses)	391,184	(68,052)
Loss before income taxes	(7,245,298)	(27,321,425)
Income tax expenses	-	(274,636)
Net loss	$ (7,245,298)	$ (27,596,061)
Other comprehensive income / (loss)		
- Foreign currency translation adjustment	2,123,058	(1,054,313)
Comprehensive loss	$ (5,122,240)	$ (28,650,374)
Net loss per share:		
- Basic	$ (0.12)	$ (0.44)
- Diluted	$ (0.12)	$ (0.44)
Weighted average number of shares of common stock:		
- Basic	62,895,246	63,095,246
- Diluted	62,895,246	63,095,246

See accompanying notes to the condensed interim consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Condensed interim consolidated statements of operations and comprehensive loss
For the nine months ended June 30, 2011 and 2012
(Unaudited)
(In US$)

	Nine months ended June 30, 2011	2012
Net revenues	$ 157,370,449	$ 151,379,855
Cost of revenues	(139,332,170)	(146,281,685)
Gross profit	18,038,279	5,098,170
Operating expenses:		
Research and development expenses	(5,416,345)	(4,705,354)
Sales and marketing expenses	(6,514,482)	(5,967,227)
General and administrative expenses	(15,071,001)	(24,825,786)
Impairment charge	-	(6,324,194)
Total operating expenses	(27,001,828)	(41,822,561)
Operating loss	(8,963,549)	(36,724,391)
Finance costs, net	(8,062,563)	(8,316,395)
Government grant income	1,042,495	2,029,488
Other income	681,409	363,927
Loss before income taxes	(15,302,208)	(42,647,371)
Income tax benefits / (expenses)	315,558	(2,396,492)
Net loss	$ (14,986,650)	$ (45,043,863)
Other comprehensive income		
- Foreign currency translation adjustment	5,401,668	804,518
Comprehensive loss	$ (9,584,982)	$ (44,239,345)
Net loss per share:		
- Basic	$ (0.24)	$ (0.71)
- Diluted	$ (0.24)	$ (0.71)
Weighted average number of shares of common stock:		
- Basic	62,895,164	63,095,246
- Diluted	62,895,164	63,095,246

See accompanying notes to the condensed interim consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Condensed interim consolidated statements of shareholders equity
For the nine months ended June 30, 2011 and 2012
(Unaudited)

	Shares of common stock Number of shares	Amount	Donated shares	Additional paid-in capital	Statutory reserves	Accumulated deficit	Accumulated other comprehensive income	Trea Number o shares
Balance as of October 1, 2010	63,612,526	$ 63,613	$ 14,101,689	$ 124,551,522	$ 7,314,565	$ (19,542,138)	$ 28,010,135	(721,0
Net loss	-	-	-	-	-	(14,986,650)	-	
Share-based compensation for employee stock awards	-	-	-	1,267,420	-	-	-	
Issuance of common stock to non-employee directors	3,750	4	-	(4)	-	-	-	
Appropriation to statutory reserves	-	-	-	-	330,738	(330,738)	-	
Foreign currency translation adjustment	-	-	-	-	-	-	5,401,668	
Balance as of June 30, 2011	63,616,276	$ 63,617	$ 14,101,689	$ 125,818,938	$ 7,645,303	$ (34,859,526)	$ 33,411,803	(721,0
Balance as of October 1, 2011	63,816,276	$ 63,817	$ 14,101,689	$ 126,135,472	$ 7,645,303	$ (44,410,240)	$ 35,804,409	(721,0
Net loss	-	-	-	-	-	(45,043,863)	-	
Share-based compensation for employee stock awards	-	-	-	655,942	-	-	-	
	-	-	-	-	140,854	(140,854)	-	

Appropriation to statutory reserves								
Foreign currency translation adjustment	-	-	-	-	-	-	804,518	
Balance as of June 30, 2012	63,816,276	$ 63,817	$ 14,101,689	$ 126,791,414	$ 7,786,157	$ (89,594,957)	$ 36,608,927	(721,0

See accompanying notes to the condensed interim consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Condensed interim consolidated statements of cash flows
For the three months ended June 30, 2011 and 2012
(Unaudited)
(In US$)

	Three months ended June 30, 2011	2012
Cash flows from operating activities		
Net loss	$ (7,245,298)	$ (27,596,061)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities:		
Depreciation and amortization	5,293,829	5,209,672
Provision for doubtful debts	1,043,826	8,095,945
Provision for obsolete inventories	491,997	2,395,864
Impairment charge	-	3,616,508
Gain on disposal of property, plant and equipment	(469,860)	-
Share-based compensation	333,085	181,211
Deferred revenue	(60,961)	(63,224)
Exchange loss	259,750	116,739
Changes in operating assets and liabilities:		
Trade accounts receivable	20,281,681	1,783,180
Inventories	(11,626,146)	(4,194,692)
Prepayments and other receivables	(1,397,742)	(2,085,949)
Accounts and bills payable	(3,753,086)	7,968,216
Accrued expenses and other payables	1,556,786	2,173,743
Net cash provided by / (used in) operating activities	4,707,861	(2,398,848)
Cash flows from investing activities		
Purchases of property, plant and equipment	(14,209,521)	(5,380,235)
Purchases of intangible assets	(4,950)	-
Proceeds from disposal of property, plant and equipment	624,777	-
Net cash used in investing activities	$ (13,589,694)	$ (5,380,235)

See accompanying notes to the condensed interim consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Condensed interim consolidated statements of cash flows
For the three months ended June 30, 2011 and 2012 (continued)
(Unaudited)
(In US$)

	Three months ended June 30,	
	2011	*2012*
Cash flows from financing activities		
Proceeds from borrowings	$ 44,965,112	$ 32,814,025
Repayment of borrowings	(44,131,663)	(26,036,083)
Increase in pledged deposits	(608,607)	(2,364,426)
Net cash provided by financing activities	224,842	4,413,516
Effect of exchange rate changes on cash and cash equivalents	**197,783**	**(236,973)**
Net decrease in cash and cash equivalents	**(8,459,208)**	**(3,602,540)**
Cash and cash equivalents at the beginning of period	**25,557,962**	**16,678,681**
Cash and cash equivalents at the end of period	**$ 17,098,754**	**$ 13,076,141**
Supplemental disclosure of cash flow information:		
Cash received during the period for:		
Bills receivable discounted to banks	$ 4,037,324	$ 8,479,774
Cash paid during the period for:		
Income taxes	$ 89,468	$ -
Interest, net of amounts capitalized	$ 2,494,911	$ 2,794,491

See accompanying notes to the condensed interim consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Condensed interim consolidated statements of cash flows
For the nine months ended June 30, 2011 and 2012
(Unaudited)
(In US$)

	Nine months ended June 30,	
	2011	*2012*
Cash flows from operating activities		
Net loss	$ (14,986,650)	$ (45,043,863)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	14,269,069	15,536,491
Provision for doubtful debts	3,490,912	11,782,482
(Recovery of) / provision for obsolete inventories	(245,410)	4,363,602
Impairment charge	-	6,324,194
Gain on disposal of property, plant and equipment	(469,860)	-
Share-based compensation	1,267,420	655,942
Deferred income taxes	(417,791)	2,110,627
Deferred revenue	(181,852)	(189,571)
Exchange loss	59,163	118,724
Changes in operating assets and liabilities:		
Trade accounts receivable	14,406,564	(12,021,707)
Inventories	(12,197,643)	3,012,873
Prepayments and other receivables	408,086	(8,972,938)
Accounts and bills payable	10,935,943	12,496,257
Accrued expenses and other payables	9,380,747	22,210,043
Net cash provided by operating activities	25,718,698	12,383,156
Cash flows from investing activities		
Purchases of property, plant and equipment	(26,526,592)	(15,432,488)
Purchases of intangible assets	(4,950)	(463,779)
Proceeds from disposal of property, plant and equipment	624,777	-
Net cash used in investing activities	$ (25,906,765)	$ (15,896,267)

See accompanying notes to the condensed interim consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Condensed interim consolidated statements of cash flows
For the nine months ended June 30, 2011 and 2012 (continued)
(Unaudited)
(In US$)

	Nine months ended June 30, 2011	2012
Cash flows from financing activities		
Proceeds from borrowings	$ 139,593,778	$ 128,209,636
Repayment of borrowings	(148,845,842)	(137,490,044)
Decrease in pledged deposits	3,201,147	1,091,537
Net cash used in financing activities	(6,050,917)	(8,188,871)
Effect of exchange rate changes on cash and cash equivalents	**749,103**	**(80,116)**
Net decrease in cash and cash equivalents	**(5,489,881)**	**(11,782,098)**
Cash and cash equivalents at the beginning of period	**22,588,635**	**24,858,239**
Cash and cash equivalents at the end of period	**$ 17,098,754**	**$ 13,076,141**
Supplemental disclosure of cash flow information:		
Cash received during the period for:		
Bills receivable discounted to banks	$ 18,317,071	$ 17,805,099
Cash paid during the period for:		
Income taxes	$ 131,565	$ -
Interest, net of amounts capitalized	$ 7,245,720	$ 8,311,649

See accompanying notes to the condensed interim consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Notes to the condensed interim consolidated financial statements
For the nine months ended June 30, 2011 and 2012
(Unaudited)

1. Principal Activities, Basis of Presentation and Organization

Principal Activities

China BAK Battery, Inc. (China BAK) is a corporation formed in the State of Nevada on October 4, 1999 as Medina Copy, Inc. The Company changed its name to Medina Coffee, Inc. on October 6, 1999 and subsequently changed its name to China BAK Battery, Inc. on February 14, 2005. China BAK and its subsidiaries (hereinafter, collectively referred to as the Company) are principally engaged in the manufacture, commercialization and distribution of a wide variety of standard and customized lithium ion (known as "Li-ion" or "Li-ion cell") rechargeable batteries for use in cellular telephones, as well as various other portable electronic applications, including high-power handset telephones, laptop computers, power tools, digital cameras, video camcorders, MP3 players, electric bicycles, hybrid/electric motors, and general industrial applications.

The shares of the Company traded in the over-the-counter market through the Over-the-Counter Bulletin Board from 2005 until May 31, 2006, when the Company obtained approval to list its common stock on The NASDAQ Global Market, and trading commenced that same date under the symbol "CBAK".

Basis of Presentation and Organization

As of June 30, 2012, the Company s subsidiaries consisted of: i) BAK International Limited (BAK International), a wholly owned limited liability company incorporated in Hong Kong on December 29, 2003 as BATCO International Limited, which changed its name to BAK International Limited on November 3, 2004; ii) Shenzhen BAK Battery Co., Ltd. (Shenzhen BAK), a wholly owned limited liability company established on August 3, 2001 in the People s Republic of China (PRC); iii) BAK Electronics (Shenzhen) Co., Ltd. (BAK Electronics), a wholly owned limited liability company established on August 15, 2005 in the PRC; iv) BAK International (Tianjin) Ltd. (BAK Tianjin), a wholly owned limited liability company established on December 12, 2006 in the PRC; v) BAK Battery Canada Ltd. (BAK Canada), a wholly owned limited liability company established on December 20, 2006 in Canada as BAK Canada Battery Ltd., which changed its name to BAK Battery Canada Ltd. on December 22, 2006; vi) BAK Europe GmbH (BAK Europe), a wholly owned limited liability company established in Germany on November 28, 2007; vii) BAK Telecom India Private Limited (BAK India), a wholly owned limited liability company established in India on August 14, 2008; and viii) Tianjin Meicai New Materials Technology Co., Ltd. (Tianjin Meicai), a wholly owned limited liability company established on February 22, 2011 in the PRC. As of June 30, 2012, BAK International beneficially owns 100% of BAK India partly through a nominee agreement with one of its employees.

BAK Tianjin was established in Tianjin Technology Industrial District on December 12, 2006 as a wholly owned subsidiary of BAK International with registered capital of US$99,990,000. Pursuant to BAK Tianjin s articles of association and relevant PRC regulations, BAK International was required to contribute US$20,000,000 to BAK Tianjin as capital (representing 20% of BAK Tianjin s registered capital) before March 11, 2007. An extension from the Business Administration Bureau of Beichen District, Tianjin, was obtained to make this contribution no later than December 11, 2007. On November 16, 2007, BAK International contributed approximately US$20,000,000 capital to BAK Tianjin. The remaining US$79,990,000 was originally required to be fully contributed no later than December 11, 2008 and an extension from the Business Administration Bureau of Beichen District, Tianjin, was obtained to make this contribution no later than December 11, 2009. On November 16, 2009, BAK International contributed approximately US$9,000,000 capital to BAK Tianjin and as of November 16, 2009, the total contribution from BAK International was US$29,000,000. The remaining US$70,990,000 was originally required to be fully contributed no later than December 11, 2009 and an extension from the Business Administration Bureau of Beichen District, Tianjin, was obtained to make this contribution no later than December 2012. In August 2011, BAK International contributed approximately US$21,000,000 capital to BAK Tianjin and as of September 30, 2011 and June 30, 2012, the total contribution from BAK International was US$50,000,000. BAK Tianjin is principally engaged in the manufacture of larger lithium ion batteries for use in cordless power tools and various types of vehicles.

China BAK Battery, Inc. and subsidiaries
Notes to the condensed interim consolidated financial statements
For the nine months ended June 30, 2011 and 2012
(Unaudited)

1. Principal Activities, Basis of Presentation and Organization (continued)

Basis of Presentation and Organization (continued)

On November 6, 2004, BAK International, a non-operating holding company that had substantially the same shareholders as Shenzhen BAK, entered into a share swap transaction with the shareholders of Shenzhen BAK for the purpose of the subsequent reverse acquisition of the Company as described below. Pursuant to the terms of the share swap transaction, BAK International acquired all of the outstanding shares of Shenzhen BAK for US$11.5 million in cash, while the shareholders of Shenzhen BAK acquired substantially all of the outstanding shares of BAK International for US$11.5 million in cash. As a result, Shenzhen BAK became a wholly-owned subsidiary of BAK International. After the share swap transaction was completed, there were 31,225,642 shares of BAK International stock outstanding, exactly the same as the number of shares of capital stock of Shenzhen BAK that had been outstanding immediately prior to the share swap, and the shareholders of BAK International were substantially the same as the shareholders of Shenzhen BAK prior to the share swap. Consequently, the share swap transaction between BAK International and the shareholders of Shenzhen BAK was accounted for as a reverse acquisition of Shenzhen BAK with no adjustment to the historical basis of the assets and liabilities of Shenzhen BAK.

On January 20, 2005, the Company completed a share swap transaction with the shareholders of BAK International. The share swap transaction, also referred to as the reverse acquisition of the Company, was consummated under Nevada law pursuant to the terms of a Securities Exchange Agreement entered by and among China BAK, BAK International and the shareholders of BAK International on January 20, 2005. Pursuant to the Securities Exchange Agreement, the Company issued 39,826,075 shares of common stock, par value US$0.001 per share, to the shareholders of BAK International (including 31,225,642 shares to the original shareholders and 8,600,433 shares to new investors who had purchased shares in the private placement described below), representing approximately 97.2% of the Company s post-exchange issued and outstanding common stock, in exchange for 100% of the outstanding capital stock of BAK International.

The share swap transaction has been accounted for as a capital-raising transaction of the Company whereby the historical financial statements and operations of Shenzhen BAK are consolidated using historical carrying amounts. The 1,152,458 shares of China BAK outstanding prior to the stock exchange transaction were accounted for at the net book value at the time of the transaction, which was a deficit of US$1,672.

Also on January 20, 2005, immediately prior to consummating the share swap transaction, BAK International executed a private placement of its common stock with unrelated investors whereby it issued an aggregate of 8,600,433 shares of common stock for gross proceeds of US$17,000,000. In conjunction with this financing, Mr. Xiangqian Li, the Chairman and Chief Executive Officer of the Company, agreed to place 2,179,550 shares of the Company's common stock owned by him into an escrow account pursuant to an Escrow Agreement dated January 20, 2005 (the Escrow Agreement). Pursuant to the Escrow Agreement, 50% of the escrowed shares were to be released to the investors in the private placement if audited net income of the Company for the fiscal year ended September 30, 2005 was not at least US$12,000,000, and the remaining 50% were to be released to investors in the private placement if audited net income of the Company for the fiscal year ended September 30, 2006 was not at least US$27,000,000. If the audited net income of the Company for the fiscal years ended September 30, 2005 and 2006 reached the above-mentioned targets, the 2,179,550 shares would be released to Mr. Xiangqian Li in the amount of 50% upon reaching the 2005 target and the remaining 50% upon reaching the 2006 target.

Under accounting principles generally accepted in the United States of America (US GAAP), escrow agreements such as the one established by Mr. Xiangqian Li generally constitute compensation if, following attainment of a performance threshold, shares are returned to a company officer. The Company determined that without consideration of the compensation charge, the performance thresholds for the year ended September 30, 2005 would be achieved. However, after consideration of a related compensation charge, the Company determined that such thresholds would not have been achieved. The Company also determined that, even without consideration of a compensation charge, the performance thresholds for the year ended September 30, 2006 would not be achieved. No compensation charge was recorded by the Company for the years ended September 30, 2005 and 2006.

China BAK Battery, Inc. and subsidiaries
Notes to the condensed interim consolidated financial statements
For the nine months ended June 30, 2011 and 2012
(Unaudited)

1. Principal Activities, Basis of Presentation and Organization (continued)

Basis of Presentation and Organization (continued)

While the 1,089,775 escrow shares relating to the 2005 performance threshold were previously released to Mr. Xiangqian Li, Mr. Xiangqian Li executed a further undertaking on August 21, 2006 to return those shares to the escrow agent for the distribution to the relevant investors. However, such shares were not returned to the escrow agent, but, pursuant to a Delivery of Make Good Shares, Settlement and Release Agreement between the Company, BAK International and Mr. Li entered into on October 22, 2007 (the Li Settlement Agreement), such shares were ultimately delivered to the Company as described below. Because the Company failed to satisfy the performance threshold for the fiscal year ended September 30, 2006, the remaining 1,089,775 escrow shares relating to the fiscal year 2006 performance threshold were released to the relevant investors. As Mr. Li has not retained any of the shares placed into escrow, and as the investors party to the Escrow Agreement are only shareholders of the Company and do not have and are not expected to have any other relationship to the Company, the Company has not recorded a compensation charge for the years ended September 30, 2005 and 2006.

At the time the escrow shares relating to the 2006 performance threshold were transferred to the investors in fiscal year 2007, the Company should have recognized a credit to donated shares and a debit to additional paid-in capital, both of which are elements of shareholders equity. This entry is not material because total ordinary shares issued and outstanding, total shareholders equity and total assets do not change; nor is there any impact on income or earnings per share. Therefore, previously filed consolidated financial statements for the fiscal year ended September 30, 2007 will not be restated. This share transfer has been reflected in these financial statements by reclassifying the balances of certain items as of October 1, 2007. The balances of donated shares and additional paid-in capital as of October 1, 2007 were credited and debited by US$7,955,358 respectively.

In November 2007, Mr. Xiangqian Li delivered the 1,089,775 shares related to the 2005 performance threshold to BAK International pursuant to the Li Settlement Agreement; BAK International in turn delivered the shares to the Company. Such shares (other than those issued to investors pursuant to the 2008 Settlement Agreements, as described below) are now held by the Company. Upon receipt of these shares, the Company and BAK International released all claims and causes of action against Mr. Xiangqian Li regarding the shares, and Mr. Xiangqian Li released all claims and causes of action against the Company and BAK International regarding the shares. Under the terms of the Li Settlement Agreement, the Company commenced negotiations with the investors who participated in the Company s January 2005 private placement in order to achieve a complete settlement of BAK International s obligations (and the Company s obligations to the extent it has any) under the applicable agreements with such investors.

Beginning on March 13, 2008, the Company has entered into settlement agreements (the 2008 Settlement Agreements) with certain investors in the January 2005 private placement.

Pursuant to the 2008 Settlement Agreements, the Company and the settling investors have agreed, without any admission of liability, to a settlement and mutual release from all claims relating to the January 2005 private placement, including all claims relating to the escrow shares related to the 2005 performance threshold that had been placed into escrow by Mr. Xiangqian Li, as well as all claims, including claims for liquidated damages relating to registration rights granted in connection with the January 2005 private placement. Under the 2008 Settlement Agreement, the Company has made settlement payments to each of the settling investors of the number of shares of the Company s common stock equivalent to 50% of the number of the escrow shares related to the 2005 performance threshold these investors had claimed; aggregate settlement payments as of June 30, 2012 amounted to 368,745 shares. Share payments to date have been made in reliance upon the exemptions from registration provided by Section 4(2) and/or other applicable provisions of the Securities Act of 1933, as amended. In accordance with the 2008 Settlement Agreements, the Company filed a registration statement covering the resale of such shares which was declared effective by the SEC on June 26, 2008.

The Company s condensed interim consolidated financial statements have been prepared in accordance with US GAAP.

China BAK Battery, Inc. and subsidiaries
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1. Principal Activities, Basis of Presentation and Organization (continued)

Basis of Presentation and Organization (continued)

The interim results of operations are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2012. The Company s consolidated balance sheet as of September 30, 2011 has been taken from the Company s audited consolidated balance sheet as of that date. All other financial statements contained herein are unaudited and, in the opinion of management, contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. The Company s accounting policies and certain other disclosure are set forth in the notes to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended September 30, 2011. These financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. This basis of accounting differs in certain material respects from that used for the preparation of the books of account of the Company s principal subsidiaries, which are prepared in accordance with the accounting principles and the relevant financial regulations applicable to enterprises with limited liabilities established in the PRC, Hong Kong, India, Canada or Germany, the accounting standards used in the places of their domicile. The accompanying condensed interim consolidated financial statements reflect necessary adjustments not recorded in the books of account of the Company's subsidiaries to present them in conformity with US GAAP.

The Company has a working capital deficiency, accumulated deficit from recurring net losses incurred for the current and prior reporting periods and significant short-term debt obligations maturing in less than one year as of June 30, 2012. These factors raise substantial doubts about the Company s ability to continue as a going concern. The Company has continued to develop a strategic plan to generate a positive cash flow from operating activities for the fiscal year ending September 30, 2012 and 2013 (the FY2012&2013 Turnaround Plan). Under the FY2012&2013 Turnaround Plan, the Company will continue to increase the presence in OEM market both domestically and internationally with more aggressive marketing strategies to expand market share while securing the existing customer base. The Company will also continue implementing cost reductions on both manufacturing costs and operating expenses to improve profit margins as well as reduce receivable turnover days through stronger credit controls.

The accompanying interim consolidated financial statements have been prepared assuming the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The interim consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty related to the Company s ability to continue as a going concern.

China BAK Battery, Inc. and subsidiaries
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1. Principal Activities, Basis of Presentation and Organization (continued)

Recently Issued Accounting Standards

In April 2011, the FASB issued ASU 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements . The amendments in this ASU update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintance implementation guidance related to that criterion. The guidance in this ASU update is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of ASU 2011-03 has no material impact on the Company s financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs . The FASB and the International Accounting Standard Board (IASB) works together to ensure that fair value has the same meaning in U.S. GAAP and IFRSs and that their respective fair value measurement and disclosure requirements are the same (except for minor differences in wording and style). The Boards concluded that the amendments in this ASU update will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments in this ASU update explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments in this ASU update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The adoption of ASU 2011-04 has no material impact on the Company s financial statements.

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1. Principal Activities, Basis of Presentation and Organization (continued)

Recently Issued Accounting Standards (continued)

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income . In this ASU updated, the entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, ASU 2011-12 Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 was issued. The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and nonprofit entities. The amendments in this ASU update are to be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early application by public entities is permitted. The adoption of ASU 2011-12 has no material impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (December 2011) . This amendment is to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position. This includes the effect or potential effect of rights of setoff associated with an entity s recognized assets and recognized liabilities within the scope of this Update. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. The amendments in this ASU update are to be applied retrospectively. This amendments is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Retrospective disclosure required for all comparative periods presented. The Company is currently evaluating the impact of the adoption of ASU 2011-11 on its financial statements.

China BAK Battery, Inc. and subsidiaries
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2 Pledged Deposits

Pledged deposits as of September 30, 2011 and June 30, 2012 consisted of the following:

		September 30, 2011		*June 30, 2012*
Pledged deposits with banks for:				
Construction payable	$	4,170,122	$	285,522
Bills payable		1,555,465		4,383,461
	$	5,725,587	$	4,668,983

Deposits pledged for construction payable are generally released when the relevant construction projects are completed.

3 Trade Accounts Receivable, net

Trade accounts receivable as of September 30, 2011 and June 30, 2012 consisted of the following:

		September 30, 2011		*June 30, 2012*
Trade accounts receivable	$	104,065,501	$	110,451,264
Less: Allowance for doubtful accounts		(26,494,550)		(22,241,175)
		77,570,951		88,210,089
Bills receivable		10,690,316		1,383,679
	$	88,261,267	$	89,593,768

An analysis of the allowance for doubtful accounts for the nine months ended June 30, 2011 and 2012 is as follows:

		Nine months ended June 30, 2011		*2012*
Balance at beginning of period	$	23,354,925	$	26,494,550
Addition of bad debt expense, net		3,506,120		11,244,800
Write off		-		(15,650,385)
Foreign exchange adjustment		889,848		152,210
Balance at end of period	$	27,750,893	$	22,241,175

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4 Inventories

Inventories as of September 30, 2011 and June 30, 2012 consisted of the following:

	September 30, 2011	*June 30, 2012*
Raw materials	$ 21,294,868	$ 19,825,840
Work-in-progress	9,366,491	13,495,121
Finished goods	43,605,308	38,167,566
	74,266,667	71,488,527
Provision for obsolete inventories	(7,125,699)	(11,494,498)
	$ 67,140,968	$ 59,994,029

Part of the Company s inventories with carrying value of US$23,495,137 and US$23,603,090 as of September 30, 2011 and June 30, 2012, respectively, was pledged as collateral under certain loan agreements (see Note 7).

5 Prepayments and Other Receivables

Prepayments and other receivables as of September 30, 2011 and June 30, 2012 consisted of the following:

	September 30, 2011	*June 30, 2012*
Prepayments for raw materials and others	$ 1,271,520	$ 2,482,175
Other receivables	4,665,485	12,401,802
Less: Allowance for doubtful accounts	(694,587)	(1,280,579)
	$ 5,242,418	$ 13,603,398

6 Property, Plant and Equipment, net

Property, plant and equipment as of September 30, 2011 and June 30, 2012 consisted of the following:

	September 30, 2011	*June 30, 2012*
Buildings	$ 127,025,347	$ 128,578,795
Machinery and equipment	159,355,671	166,069,073
Office equipment	2,519,208	2,544,805
Motor vehicles	1,453,456	1,447,258
	290,353,682	298,639,931
Accumulated depreciation	(80,673,667)	(95,795,383)
Construction in progress	45,305,701	49,144,819
Prepayment for acquisition of property, plant and equipment	1,466,207	2,485,912
Assets held for abandonment	744,356	760,168
Net book value	257,196,279	255,235,447

Impairment charge	(13,958,165)	(20,331,690)
Carried amount	$ 243,238,114	$ 234,903,757

China BAK Battery, Inc. and subsidiaries
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6 Property, Plant and Equipment, net (continued)

(i) Depreciation expense for the nine months ended June 30, 2011 and 2012 is included in the condensed interim consolidated statements of operations and comprehensive loss as follows:

	Nine months ended June 30, 2011	Nine months ended June 30, 2012
Cost of revenues	$ 11,013,421	$ 11,007,553
Research and development expenses	353,576	444,769
Sales and marketing expenses	328,080	128,338
General and administrative expenses	2,128,748	2,486,428
	$ 13,823,825	$ 14,067,088

(ii) Construction in Progress

Construction in progress mainly comprises capital expenditures for construction of the Company s new corporate campus, including offices and factories.

For the nine months ended June 30, 2011 and 2012, the Company capitalized interest of US$242,508 and US$1,155,846 respectively to the cost of construction in progress.

(iii) Pledged Property, Plant and Equipment

As of September 30, 2011 and June 30, 2012, machinery and equipment with net book value of US$56,376,435 and US$52,546,848 and buildings with net book value of US$109,076,470 and US$109,530,883 were pledged as collateral under certain loan arrangements (see Note 7 and 8).

(iv) Assets held for abandonment

Assets held for abandonment as of September 30, 2011 and June 30, 2012 consisted of the following:

	September 30, 2011	June 30, 2012
Net book value	$ 744,356	760,168
Less: impairment charge	(744,356)	(760,168)
Carried amount	$ -	-

The carried amount as of September 30, 2011 and June 30, 2012 composed of the machinery and equipment relating to steel-case cell production line and certain used assets which have been written down to nil.

China BAK Battery, Inc. and subsidiaries
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7 Short-term Bank Loans

The Company obtained several short-term loan facilities from financial institutions in the PRC. These facilities were secured by the Company s assets with the following carrying values:

	September 30, 2011	*June 30, 2012*
Inventories (Note 4)	$ 23,495,137	$ 23,603,090
Buildings, net (Note 6)	109,076,470	109,530,883
Land use rights, net	16,519,620	16,604,811
Machinery and equipment, net (Note 6)	25,333,574	52,546,848
	$ 174,424,801	$ 202,285,632

As of September 30, 2011 and June 30, 2012, the Company had several short-term bank loans with aggregate outstanding balances of US$139,706,153 and US$146,324,504, respectively. The loans were primarily obtained for general working capital, carried interest rates ranging from 6.14% to 8.53% per annum, and had maturity dates ranging from 6 to 12 months. Each loan is guaranteed by Mr. Xiangqian Li, who did not receive any compensation for acting as guarantor.

8 Long-term Bank Loans

As of September 30, 2011 and June 30, 2012, the Company had long-term bank loans of US$38,470,278 and US$23,398,121, respectively. As of June 30, 2012, US$23,398,121 was borrowed under a four-year long-term loan credit facility from China Development Bank, bearing interest at the benchmark rate of the People s Bank of China (PBOC) for three-year to five-year long-term loans, which is currently 7.04% per annum. This long-term bank loan is repayable from February 9, 2016 to December 8, 2016.

The long-term bank loan with China Development Bank is: (i) guaranteed by Mr. Xiangqian Li; (ii) secured by certain shares of the Company owned by Mr. Xiangqian Li; and (iii) to be secured by the property ownership certificate and secured by land use rights certificate relating to the land on which the Company s Research and Development Test Centre is to be constructed and the facilities to be constructed thereon. As of June 30, 2012, the net book value of the related land use rights were US$1,274,580.

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8 Long-term Bank Loans (continued)

Mr. Xiangqian Li did not receive any compensation for pledging his shares in the Company or acting as guarantor for the above long-term bank loans.

The aggregate maturities of long-term bank loans as of June 30, 2012 are as follows: Fiscal years ending on June 30,

2013	$	-
2014 or after		23,398,121
	$	23,398,121

9 Other Long-term loan

As of June 30, 2012, the Company obtained interest-free advances of US$2,468,600 from Tianjin Aifuyi Auto Parts. Co. Ltd..

10 Deferred Revenue

Deferred revenue represents a government grant of subsidy for additional cost of land use rights relating to BAK Industrial Park, which is amortized on a straight-line basis over the estimated useful lives of the depreciable facilities constructed thereon of 35 years.

11 Other Long-term payables

Other long-term payables as of June 30, 2012 include a government subsidy of approximately US$7,900,000 received for the Company s automated high-power lithium battery project from the National Development and Reform Commission and the Ministry of Industry and Information Technology as well as government subsidy of approximately US$4,322,000 received for the Company s various research and development projects.

12 Share-based Compensation

(i) Options
The Company grants share options to officers and employees and restricted shares of common stock to its non-employee directors as rewards for their services.

Stock Option Plan
In May 2005, the Board of Directors adopted the China BAK Battery, Inc. 2005 Stock Option Plan (the Plan). The Plan originally authorized the issuance of up to 4,000,000 shares of the Company s common stock, pursuant to stock options granted under the Plan, or as grants of restricted stock. The exercise price of options granted pursuant to the Plan must be at least equal to the fair market value of the Company s common stock at the date of the grant. Fair market value is determined at the discretion of the designated committee on the basis of reported sales prices for the Company s common stock over a ten business day period ending on the grant date. The Plan will terminate on May 16, 2055. On July 28, 2008, the Company s stockholders approved certain amendments to the Plan, including an amendment increasing the total number of shares available for issuance under the Plan to 8,000,000.

Pursuant to the Plan, the Company granted options to purchase 2,000,000 shares of common stock with an exercise price of US$6.25 per share on May 16, 2005. In accordance with the vesting provisions of the grants, the options became vested and exercisable under the following schedule:

Number of Shares	Percentage of Options Issued	Initial Vesting Date
800,000	40%	July 1, 2007
600,000	30%	January 1, 2008
600,000	30%	July 1, 2008
2,000,000	100%	

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12 Share-based Compensation (continued)

Subsequent to the grant date, options to purchase 200,000 shares of common stock were forfeited because the optionees terminated their employment with the Company. In addition, on September 28, 2006, options to purchase a total of 1,400,000 shares of common stock were cancelled pursuant to the Termination and Release Agreements signed on that day.

Pursuant to the Plan, the Company also granted options to purchase 1,501,500 shares of the Company s common stock with a weighted-average exercise price of US$3.28 per share on June 25, 2007. In accordance with the vesting provisions of the grants, the options will become vested and exercisable during the period from June 30, 2007 to February 9, 2012 according to each employee s respective agreement.

A summary of share option plan activity for these options during the nine months ended June 30, 2012 is presented below:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term	Aggregate intrinsic value (1)
Outstanding as of October 1, 2011	605,000	$ 3.29		
Exercised	-	-		
Forfeited	-	-		
Cancelled	-	-		
Outstanding as of June 30, 2012	605,000	$ 3.29	0.4 year	$ -
Exercisable as of June 30, 2012	605,000	$ 3.29	0.4 year	$ -

(1) Aggregate intrinsic value represents the value of the Company s closing stock price on June 30, 2012 (US$0.58) in excess of the exercise price multiplied by the number of options outstanding or exercisable.

The weighted-average grant-date fair value of options granted during 2007 was US$2.15 per share. The Company recorded non-cash share-based compensation expense of US$49,224 for the nine months ended June 30, 2011, in respect of share options granted on June 25, 2007, which was allocated to cost of revenues, sales and marketing expenses, general and administrative expenses and research and development expenses respectively. No non-cash share-based compensation expense was recorded for the nine months ended June 30, 2012.

The fair value of the above option awards granted on June 25, 2007 was estimated on the date of grant using the Black-Scholes Option Valuation Model that uses the following assumptions:

Expected volatility	69.44%
Expected dividends	Nil
Expected life	4 - 10 years
Risk-free interest rate	5.09%

As of June 30, 2012, there were no unrecognized compensation costs related to non-vested share options.

China BAK Battery, Inc. and subsidiaries
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12 Share-based Compensation (continued)

Pursuant to the Plan, the Company also granted options to purchase 360,000 shares of common stock with an exercise price of US$4.30 per share on January 28, 2008. In accordance with the vesting provisions of the grants, the options will become vested and exercisable during the period from April 28, 2008 to January 28, 2011 according to each employee s respective agreement.

A summary of share option plan activity for these options during the nine months ended June 30, 2012 is presented below:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term	Aggregate intrinsic value (1)
Outstanding as of October 1, 2011	360,000	$ 4.30		
Exercised	-	-		
Forfeited	-	-		
Cancelled	-	-		
Outstanding as of June 30, 2012	360,000	$ 4.30	0.5 year	$ -
Exercisable as of June 30, 2012	360,000	$ 4.30	0.5 year	$ -

(1) Aggregate intrinsic value represents the value of the Company s closing stock price on June 30, 2012 (US$0.58) in excess of the exercise price multiplied by the number of options outstanding or exercisable.

The weighted average grant-date fair value of options granted on January 28, 2008 was US$3.59 per share. The Company recorded non-cash share-based compensation expense of US$14,812 for the nine months ended June 30, 2011, in respect of share options granted on January 28, 2008, which was allocated to general and administrative expenses and research and development expenses respectively. No non-cash share-based compensation expense was recorded for the nine months ended June 30, 2012.

The fair value of the above option awards granted on January 28, 2008 was estimated on the date of grant using the Black-Scholes Option Valuation Model that uses the following assumptions.

Expected volatility	120.23%
Expected dividends	Nil
Expected life	5 years
Risk-free interest rate	3.59%

As of June 30, 2012, there were no unrecognized compensation costs related to non-vested share options.

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12 Share-based Compensation (continued)

On May 29, 2008, the Compensation Committee of the Company s Board of Directors recommended and approved the grant of options to purchase 1,080,000 shares of the Company s common stock to Mr. Xiangqian Li and options to purchase 170,000 shares to five other employees, with an exercise price of US$4.18 per share. In accordance with the vesting provisions of the grants, the options will become vested and exercisable during the period from September 30, 2008 to May 29, 2012 according to each employee s respective agreement.

A summary of share option plan activity for these options during the nine months ended June 30, 2012 is presented below:

	Number of shares		Weighted average exercise price per share	Weighted average remaining contractual term		Aggregate intrinsic value (1)
Outstanding as of October 1, 2011	1,250,000	$	4.18			
Exercised	-		-			
Forfeited	-		-			
Cancelled	-		-			
Outstanding as of June 30, 2012	1,250,000	$	4.18	0.9 year	$	-
Exercisable as of June 30, 2012	1,250,000	$	4.18	0.9 year	$	-

(1) Aggregate intrinsic value represents the value of the Company s closing stock price on June 30, 2012 (US$0.58) in excess of the exercise price multiplied by the number of options outstanding or exercisable.

The weighted average grant-date fair value of options granted on May 29, 2008 was US$2.36 per share. The Company recorded non-cash share-based compensation expense of US$149,858 and US$16,524 for the nine months ended June 30, 2011 and 2012 respectively, in respect of share options granted on May 29, 2008, which was allocated to general and administrative expenses and research and development expenses respectively.

The fair value of the above option awards granted on May 29, 2008 was estimated on the date of grant using the Black-Scholes Option Valuation Model that uses the following assumptions.

Expected volatility	59.48%
Expected dividends	Nil
Expected life	5 years
Risk-free interest rate	4.01%

As of June 30, 2012, there were no unrecognized compensation costs related to non-vested share options.

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12 Share-based Compensation (continued)

On June 22, 2009, the Compensation Committee of the Company s Board of Directors recommended and approved the grant of options to purchase 1,928,200 shares of the Company s common stock to certain key employees, officers and consultants with an exercise price of US$2.81 per share. In accordance with the vesting provisions of the grants, the options will become vested and exercisable over five years in twenty equal quarterly installments on the first day of each fiscal quarter beginning on October 1, 2009.

A summary of share option plan activity for these options during the nine months ended June 30, 2012 is presented below:

	Number of shares		Weighted average exercise price per share	Weighted average remaining contractual term		Aggregate intrinsic value (1)
Outstanding as of October 1, 2011	1,643,355	$	2.81			
Exercised	-		-			
Forfeited	-		-			
Cancelled	-		-			
Outstanding as of June 30, 2012	1,643,355	$	2.81	3.8 years	$	-
Exercisable as of June 30, 2012	841,600	$	2.81	3.8 years	$	-

(1) Aggregate intrinsic value represents the value of the Company s closing stock price on June 30, 2012 (US$0.58) in excess of the exercise price multiplied by the number of options outstanding or exercisable.

The weighted average grant-date fair value of options granted on June 22, 2009 was US$2.46 per share. The Company recorded non-cash share-based compensation expense of US$725,259 and of US$414,392 for the nine months ended June 30, 2011 and 2012, respectively, in respect of share options granted on June 22, 2009, which was allocated to general and administrative expenses and research and development expenses respectively.

The fair value of the above option awards granted on June 22, 2009 was estimated on the date of grant using the Black-Scholes Option Valuation Model that uses the following assumptions.

Expected volatility	111.03%
Expected dividends	Nil
Expected life	7 years
Risk-free interest rate	3.69%

As of June 30, 2012, there were unrecognized compensation costs of US$426,819 related to the above non-vested share options. These costs are expected to be recognized over a weighted average period of 0.6 year.

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12 Share-based Compensation (continued)

On June 26, 2009, the Compensation Committee of the Company s Board of Directors recommended and approved the grant of options to purchase 75,000 shares of the Company s common stock to certain key management with an exercise price of US$3.24 per share. In accordance with the vesting provisions of the grants, the options will become vested and exercisable over five years in twenty equal quarterly installments on the first day of each fiscal quarter beginning on October 1, 2009.

A summary of share option plan activity for these options during the nine months ended June 30, 2012 is presented below:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term	Aggregate intrinsic value (1)
Outstanding as of October 1, 2011	75,000	$ 3.24		
Exercised	-	-		
Forfeited	75,000	3.24		
Cancelled	-	-		
Outstanding as of June 30, 2012	-	$ -	-	$ -
Exercisable as of June 30, 2012	-	$ -	-	$ -

(1) Aggregate intrinsic value represents the value of the Company s closing stock price on June 30, 2012 (US$0.58) in excess of the exercise price multiplied by the number of options outstanding or exercisable.

The weighted average grant-date fair value of options granted on June 26, 2009 was US$2.86 per share. The Company recorded non-cash share-based compensation expense of US$35,777 and US$15,136 for the nine months ended June 30, 2011 and 2012, respectively, in respect of share options granted on June 26, 2009, which was allocated to research and development expenses.

The fair value of the above option awards granted on June 26, 2009 was estimated on the date of grant using the Black-Scholes Option Valuation Model that uses the following assumptions.

Expected volatility	113.58%
Expected dividends	Nil
Expected life	7 years
Risk-free interest rate	3.51%

As of June 30, 2012, there were no unrecognized compensation costs related to non-vested share options.

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12 Share-based Compensation (continued)

On April 8, 2010, the Compensation Committee of the Company s Board of Directors recommended and approved the grant of options to purchase 100,000 shares of the Company s common stock to certain key management with an exercise price of US$2.43 per share. In accordance with the vesting provisions of the grants, the options will become vested and exercisable in eight equal installments beginning on each quarter after September 30, 2011.

A summary of share option plan activity for these options during the nine months ended June 30, 2012 is presented below:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term	Aggregate intrinsic value (1)
Outstanding as of October 1, 2011	100,000	$ 2.43		
Exercised	-	-		
Forfeited	-	-		
Cancelled	-	-		
Outstanding as of June 30, 2012	100,000	$ 2.43	5.1 years	$ -
Exercisable as of June 30, 2012	37,500	$ 2.43	5.1 years	$ -

(1) Aggregate intrinsic value represents the value of the Company s closing stock price on June 30, 2012 (US$0.58) in excess of the exercise price multiplied by the number of options outstanding or exercisable.

The weighted average grant-date fair value of options granted on April 8, 2010 was US$1.41 per share. The Company recorded non-cash share-based compensation expense of US$37,326 and US$29,144 for the nine months ended June 30, 2011 and 2012 in respect of share options granted on April 8, 2010 which was allocated to research and development expense.

The fair value of the above option awards granted on April 8, 2010 was estimated on the date of grant using the Black-Scholes Option Valuation Model that uses the following assumptions.

Expected volatility	51.79%
Expected dividends	Nil
Expected life	7.5 years
Risk-free interest rate	3.90%

As of June 30, 2012, there were unrecognized compensation costs of US$15,004 related to the above non-vested share options. These costs are expected to be recognized over a weighted average period of 0.9 year.

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12 Share-based Compensation (continued)

On May 26, 2011, the Compensation Committee of the Company s Board of Directors recommended and approved the grant of options to purchase 160,800 shares of the Company s common stock to certain key management with an exercise price of US$1.28 per share. In accordance with the vesting provisions of the grants, the options will become vested and exercisable in twelve equal installments beginning on each quarter after September 30, 2011.

A summary of share option plan activity for these options during the nine months ended June 30, 2012 is presented below:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term	Aggregate intrinsic value (1)
Outstanding as of October 1, 2011	160,800	$ 1.28		
Exercised	-	-		
Forfeited	-	-		
Cancelled	-	-		
Outstanding as of June 30, 2012	160,800	$ 1.28	4.7 years	$ -
Exercisable as of June 30, 2012	53,600	$ 1.28	4.7 years	$ -

(1) Aggregate intrinsic value represents the value of the Company s closing stock price on June 30, 2012 (US$0.58) in excess of the exercise price multiplied by the number of options outstanding or exercisable.

The weighted average grant-date fair value of options granted on May 26, 2011 was US$0.65 per share. The Company recorded non-cash share-based compensation expense of US$8,832 and US$40,328 for the nine months ended June 30, 2011 and 2012, respectively, in respect of share options granted on May 26, 2011, which was allocated to general and administrative expenses.

The fair value of the above option awards granted on May 26, 2011 was estimated on the date of grant using the Black-Scholes Option Valuation Model that uses the following assumptions.

Expected volatility	50.90%
Expected dividends	Nil
Expected life	6.0 years
Risk-free interest rate	3.06%

As of June 30, 2012, there were unrecognized compensation costs of US$32,940 related to the above non-vested share options. These costs are expected to be recognized over a weighted average period of 1.8 years.

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12 Share-based Compensation (continued)

(ii) Restricted Shares

Pursuant to the Plan and in accordance with the China BAK Battery, Inc. Compensation Plan for Non-Employee Directors, the Company granted 5,000 restricted shares to each of the existing elected independent directors with a fair value of US$1.68 per share on July 1, 2010. The eligible directors shall vest in their rights under the restricted shares according to the following schedule:

(i) 25% of the restricted shares granted will immediately vest on the grant date; and

(ii) The remaining 75% of the restricted shares will vest in three equal quarterly installments on the last day of each subsequent quarter or in three equal quarterly installments on the last day of each calendar quarter beginning on the last day of the first full calendar quarter after the grant date.

The Company recorded non-cash share-based compensation expense of US$6,854 for the nine months ended June 30, 2011, in respect of the restricted shares granted in July 1, 2010, which was allocated to general and administrative expenses.

The first and second 25% of the restricted shares were already issued as fully paid shares of common stock to the Company s three independent directors on August 4, 2010 and October 6, 2010. According to the resolution of Compensation Committee on December 28, 2010, the third and forth 25% of the restricted shares were cancelled. As of June 30, 2012, there were no unrecognized compensation costs associated with these restricted shares granted to non-employee directors.

Pursuant to the Plan, the Compensation Committee of the Company s Board of Directors recommended and approved the grant of 500,000 restricted shares to Chief Executive Officer, Mr. Xiangqian Li with a fair value of US$2.81 per share on June 22, 2009. In accordance with the vesting schedule of the grant, the restricted shares will vest in twenty equal quarterly installments on the first day of each fiscal quarter beginning on October 1, 2009.

The Company recorded non-cash share-based compensation expense of US$239,478 and of US$140,418 for the nine months ended June 30, 2011 and 2012 respectively in respect of the restricted shares granted on June 22, 2009, which was allocated to general and administrative expenses.

As of June 30, 2012, there were unrecognized stock-based compensation costs of US$149,802 associated with these restricted shares granted to Mr. Xiangqian Li. These costs are expected to be recognized over a weighted-average period of 1.4 years.

As the Company itself is an investment holding company which is not expected to generate operating profits to realize the tax benefits arising from its net operating loss carried forward, no income tax benefits were recognized for such stock-based compensation cost under the Stock Option Plan for the nine months ended June 30, 2011 and 2012.

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13 Net Loss per Share

The calculation of basic net loss per share is based on the net loss for the nine months ended June 30, 2012 attributable to equity shareholders of $45,043,863 (nine months ended June 30, 2011: $14,986,650) and the weighted average number of shares of common stock of 63,095,246 issued and outstanding during the nine months ended June 30, 2012 (nine months ended June 30, 2011: 62,895,164).

The effects of 4,712,655 shares of stock options, 500,000 shares of restricted stock and 1,447,500 warrants outstanding during the nine months ended or as of June 30, 2011 were all anti-dilutive and the effects of 4,119,155 shares of stock options and 300,000 shares of restricted stock warrants outstanding during the nine months ended or as of June 30, 2012 were all anti-dilutive. As such, basic and diluted net loss per share for the nine months ended June 30, 2011 and 2012 are the same for the periods, respectively.

14 Fair Value of Financial Instruments

Accounting Standards Codification (ASC) Topic 820 requires the disclosure of the estimated fair value of financial instrument for which fair value was not elected. Except for long-term loan disclosed as below, the carrying amounts of other financial assets and liabilities approximated their fair value due to short maturities or the applicable interest rates approximately the current market value:

As of September 30, 2011		*As of June 30, 2012*	
Carrying amount	Fair value	Carrying amount	Fair value
$ 2,457,309	$ 2,230,726	$ 2,468,600	$ 2,325,577

15 Commitments and Contingencies

(i) Capital Commitments

As of September 30, 2011 and June 30, 2012, the Company had the following contracted capital commitments:

	September 30, 2011	*June 30, 2012*
For construction of buildings	$ 7,847,376	$ 12,392,122
For purchases of equipment	3,511,966	6,459,117
	$ 11,359,342	$ 18,851,239

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15 Commitments and Contingencies (continued)

(ii) Land Use Rights and Property Ownership Certificate

Pursuant to the land use rights certificate relating to the Company s Tianjin facility, the Tianjin government had requested that the Company complete the construction of the Tianjin facility before September 30, 2008. As of June 30, 2012, the Company was in the process of negotiating with the relevant government bureau for the extension of the completion date. If the Company fails to obtain the approval for the extension of the completion date from the relevant government bureau, there is a risk that the land use rights certificate relating to the Company s Tianjin facility will become invalid. However, management believes that this possibility, while present, is remote.

Pursuant to the land use rights certificate that the Company obtained relating to the Research and Development Test Centre to be constructed in Shenzhen, the Company must complete at least 25% of the construction of the Research and Development Test Centre by September 30, 2008. On November 11, 2008 and May 27, 2009, the Company has signed two supplement agreements with Shenzhen government to increase the dimensions of the Research and Development Test Centre. According to the supplement agreements, the Company is required to complete the construction by May 6, 2011. According to the property ownership and land use rights certificate, such rights may not be pledged without the approval of the relevant government office. The Company is required to pledge its property ownership and land use rights certificate in relation to the Research and Development Test Centre to China Development Bank according to the loan agreement entered into with it. On April 7, 2010, the pledge of the land use rights certificate to China Development Bank was approved by the relevant government bureau. On April 20, 2010, the relevant land use rights certificate was pledged to China Development Bank.

Under the new insurance policy entered into with Ping An Property & Casualty Insurance Company of China, Ltd, the insured amount for our manufacturing facilities at BAK Industrial Park is RMB550,000,000 (approximately $82.2 million) for the period from August 26, 2010 to March 26, 2012. On March 26, 2012, the Company purchased the new insurance for its manufacturing facilities at BAK Industrial Park in Shenzhen, China. Under the new insurance policy entered into with Ping An Property & Casualty Insurance Company of China, Ltd, the insured amount for our manufacturing facilities at BAK Industrial Park is RMB663,612,000 (approximately $105.4 million) for the period from March 27, 2012 to July 26, 2013.

As of June 30, 2012, under the insurance policy entered into with Ping An Property & Casualty Insurance Company of China, Ltd, the insured amount for our manufacturing facilities in Tianjin is RMB329,666,477 (approximately US$51.6 million) for the period from July 2, 2011 to July 2, 2012. On July 2, 2012, under the insurance policy entered into with Ping An Property & Casualty Insurance Company of China, Ltd, the insured amount for our manufacturing facilities in Tianjin is RMB260,142,199 (approximately US$40.9 million) for the period from July 2, 2012 to July 2, 2013.

The Company is not able to insure its new Research and Development Test Centre to be constructed in Shenzhen, China, until it receives the required property ownership and land use rights certificates. Upon receipt of such certificates, the Company intends to procure such insurance. As discussed above, the Company has obtained the land use rights certificate to the land relating to these facilities. The application for a property ownership certificate is in process with respect to the Company s facilities in Shenzhen.

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15 Commitments and Contingencies (continued)

(iii) Guarantees

In order to secure the supplies of certain raw materials and equipment and upon the request of suppliers, the Company has given guarantees to certain suppliers which are summarized as follows:

		September 30, 2011		*June 30, 2012*
Guaranteed for Shenzhen Tongli Hi-tech Co. Ltd. - a non-related party	$	2,349,514	$	2,360,309
Guaranteed for Shanghai Global Children Products Co. Ltd. - a non-related party		1,566,342		-
Guaranteed for Shenzhen B&G Technology Development Co. Ltd.- a non- related party		-		9,441,236
Guaranteed for Tianjin Huaxia Hongyuan Industrial Co. Ltd. - a non- related party		-		2,360,309
Guaranteed for Tianjin Bike New Energy Research Institute - a non- related party		7,831,712		11,124,924
Guaranteed for Shenzhen Yasu Technology Co. Ltd. - a non-related party		9,398,055		9,441,236
	$	21,145,623	$	34,728,014

Management has assessed the fair value of the obligation arising from the above financial guarantees and considered it immaterial to the condensed interim consolidated financial statements. Therefore, no obligations in respect of the above guarantees were recognized as of June 30, 2012.

(iv) Outstanding Discounted Bills and Transferred Bills

From time to time, the Company factors bills receivable to banks and endorses the bank acceptance bills received to its suppliers, vendors or other parties for settlement of its liabilities to these creditors. At the time of the factoring and transfer, all rights and privileges of holding the receivables are transferred to the banks and the creditors. The Company removes the assets from its books and records a corresponding expense for the amount of the discount. The Company remains contingently liable on the amount outstanding in the event the bill issuer defaults.

The Company's outstanding discounted and transferred bills as of September 30, 2011 and June 30, 2012 are summarized as follows:

	September 30, 2011	*June 30, 2012*

Bank acceptance bills	$ 2,049,540	$ 17,805,099

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16 Significant Concentrations

(a) Customers and Credit Concentrations

No customer individually comprised 10% or more of net revenue for the nine months ended June 30, 2012.

The Company had only one customer that individually comprised 10% or more of net revenue for the nine months ended June 30, 2011, as follows:

Simplo Technology Co., Ltd.	$ 17,805,312	11%

As of June 30, 2011, approximately 8% of gross trade accounts receivable was due from Simplo Technology Co., Ltd..

(b) Credit Risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents and pledged deposits. As of September 30, 2011 and June 30, 2012, substantially all of the Company s cash and cash equivalents and pledged deposits were held by major financial institutions located in the PRC, which management believes are of high credit quality.

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17 Segment Information

The Company currently engages in the manufacture, commercialization and distribution of a wide variety of standard and customized lithium ion rechargeable batteries for use in a wide array of applications. During the nine months ended June 30, 2012, the Company manufactured five types of Li-ion rechargeable batteries: aluminum-case cell, battery pack, cylindrical cell, lithium polymer cell and high-power lithium battery cell. The Company's products are sold to packing plants operated by third parties primarily for use in mobile phones and other electronic devices. Net revenues for the nine months ended June 30, 2011 and 2012 were as follows:

Net revenues by product:

	Nine months ended June 30,					
		2011			*2012*	
			%			*%*
Aluminum-case cell	$	60,714,157	38.58	$	59,972,979	39.62
Battery pack		41,608,428	26.44		41,388,013	27.34
Cylindrical cells		42,959,323	27.30		31,692,745	20.94
Lithium polymer cells		7,148,846	4.54		11,314,727	7.47
High-power lithium battery cells		4,939,695	3.14		7,011,391	4.63
	$	157,370,449	100.00	$	151,379,855	100.00

Net revenues by geographic area:

	Nine months ended June 30,					
		2011			*2012*	
			%			*%*
PRC Mainland	$	105,107,810	66.79	$	109,702,456	72.47
PRC Taiwan		34,164,137	21.71		19,124,243	12.63
India		8,937,399	5.68		6,839,791	4.52
Hong Kong, China		6,365,033	4.04		8,458,460	5.59
Others		2,796,061	1.78		7,254,905	4.79
	$	157,370,449	100.00	$	151,379,855	100.00

Substantially all of the Company s long-lived assets are located in the PRC.

18 Subsequent Events

The Company has evaluated all subsequent events through the date these condensed interim consolidated financial statements were issued, and determined that there were no subsequent events or transactions that require recognition or disclosures in the condensed interim consolidated financial statements, except as disclosed in note 15 (ii).

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following management s discussion and analysis should be read in conjunction with our financial statements and the notes thereto and the other financial information appearing elsewhere in this report. Our financial statements are prepared in U.S. dollars and in accordance with U.S. GAAP.

Special Note Regarding Forward Looking Statements

In addition to historical information, this report 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. We use words such as believe, expect, anticipate, project, target, plan, optimistic, intend, aim 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; 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, including those identified in Item 1A, Risk Factors described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, 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.

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.

Use of Terms

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

- Company, we, us and our are to the combined business of China BAK Battery, Inc., a Nevada corporation, and its consolidated subsidiaries;
- BAK International are to our Hong Kong subsidiary, BAK International Limited;
- BAK Europe are to our German subsidiary, BAK Europe GmbH;
- BAK Canada are to our Canadian subsidiary, BAK Battery Canada Ltd.;
- BAK India are to our Indian subsidiary, BAK Telecom India Private Limited;
- Shenzhen BAK are to our PRC subsidiary, Shenzhen BAK Battery Co., Ltd.;
- BAK Tianjin are to our PRC subsidiary, BAK International (Tianjin) Ltd.;
- BAK Electronics are to our PRC subsidiary, BAK Electronics (Shenzhen) Co., Ltd.;
- Tianjin Meicai are to our PRC subsidiary, Tianjin Meicai New Material Technology Co., Ltd.;
- China and PRC are to People s Republic of China;
- RMB are to Renminbi, the legal currency of China;
- U.S. dollar, $ and US$ are to the legal currency of the United States;
- SEC are to the United States Securities and Exchange Commission;
- Securities Act are to the Securities Act of 1933, as amended; and
- Exchange Act are to the Securities Exchange Act of 1934, as amended.

Overview

We are a leading global manufacturer of lithium-based battery cells. We produce battery cells for original equipment manufacturer, or OEM, customers and replacement battery manufacturers that are the principal component of rechargeable batteries commonly used to power the following applications:

- cellular phones and smartphones;
- notebook computers, tablet computers and e-book readers;
- portable consumer electronics, such as digital cameras, portable media players, portable gaming devices, personal digital assistants, or PDAs, camcorders, digital cameras, and Bluetooth headsets; and
- electric bicycles and other light electric vehicles, hybrid electric vehicles, and other electric vehicles; cordless power tools; and uninterruptible power supplies, or UPS.

We conduct all of our operations in China, in close proximity to China s electronics manufacturing base and its rapidly growing market. Historically, we have primarily manufactured prismatic lithium-ion cells for the cellular phone replacement battery market and the OEM market. Our products are packed into batteries by third-party battery pack manufacturers in accordance with the specifications of manufacturers of portable electronic applications. At the request of our customers that order prismatic battery packs, we assemble our prismatic cells into battery packs at our Shenzhen facility or engage battery pack manufacturers to assemble our cells into batteries for a fee, and then sell battery packs to these customers both for the replacement and OEM markets.

Since the beginning of fiscal year 2012, our growth strategy has included two objectives: to enhance our product portfolio by producing high-capacity battery cells that meet market demand in both prismatic and cylindrical spaces, and to improve our customer base by aggressively seeking more tier 1 OEM market share from both existing markets and emerging markets. During the fiscal quarter ended June 30, 2012, we continued to be in transition towards achieving these objectives. Our management expects that the Company may experience challenges in financing new projects and collecting old receivables while migrating from the replacement market to OEM markets. During the quarter, we incurred a significant gross loss in cylindrical and polymer battery cell sales at the same time as the continuing decrease in gross profit of prismatic battery cells. However, we also report the following accomplishments:

- a significant increase in sale volumes of polymer cells during this quarter;
- progress in improving our customer base, as the number of the leading 15 cell phone OEMs purchasing our products grew to 13 during the quarter; and
- the shipment of battery packs (rather than cells) grew for prismatic products. As of June 30, 2012 battery shipments accounted for 37% of total shipments, representing a 7% increase in comparison with the third quarter of our fiscal year ended September 30, 2011.

During the fiscal quarter ended June 30, 2012, we encountered increased costs for prismatic cells and reduced demand for cylindrical cells. Although the continued weakness in the global economy continued to negatively impact our business by reducing the sales volume of our products, quarterly revenues from sales of lithium polymer cells and high-power lithium battery cells were the highest in our company s history as a result of our efforts to increase our share in the smartphone, electric bicycle and electric vehicle markets. In response to the globally weak market, the Company expects to continue to increase sales volume in the tier 1 OEM market and to take cost-cutting actions to improve gross margin.

On October 24, 2011, NASDAQ Staff notified the Company that its common stock was not in compliance with one of the requirements for continued listing on the NASDAQ Global Market because the closing bid price of its common stock had fallen below $1.00 for 30 consecutive business days. The Staff also notified the Company that it had been granted a grace period of 180 calendar days, or until April 23, 2012, in which to regain compliance. In a letter dated April 10, 2012, the Staff informed the Company that it had determined that the closing bid price of China BAK's common stock had been at $1.00 per share or greater for ten consecutive business days from March 26, 2012 to April

9, 2012. Accordingly, the Company regained compliance with NASDAQ Listing Rule 5450(a)(1) and this matter was closed.

On May 25, 2012, the Company received a new notice from the NASDAQ staff indicating that, for the last 30 consecutive business days, the bid price for the Company s common stock had closed below the minimum $1.00 per share required for continued inclusion on The NASDAQ Global Market under NASDAQ Listing Rule 5450(a)(1). The notification letter stated that the Company will be afforded 180 calendar days, or until November 21, 2012, to regain compliance with the minimum bid price requirement. In order to regain compliance, shares of the Company s common stock must maintain a minimum closing bid price of at least $1.00 per share for a minimum of ten consecutive business days.

To help us finance and expand our operations, we had access to $219.6 million in short-term credit facilities and $23.6 million in long-term credit facilities as of June 30, 2012. As of June 30, 2012, the principal outstanding amounts included short-term bank loans of $146.3 million under credit facilities and long-term bank loans of $23.4 million maturing in over one year, and bills payable of $66.2 million under credit facilities, leaving $40.5 million of short-term funds available under our credit facilities for additional cash needs. As of June 30, 2012, our cash position had weakened due to the repayment of some of our short-term loans. Our management expects that government monetary policy may continue to be tight in the short-term future, which may reduce our liquidity. We expect to respond to this challenge in at least two ways: first, we will continue to reinforce our efforts to improve the collection of receivables; and second, we will continue to consider strategic asset dispositions.

We had a working capital deficiency, accumulated deficit from recurring net losses incurred for the current and prior periods as at June 30, 2012 and significant short-term debt obligations maturing in less than one year. These factors raise substantial doubts about our ability to continue as a going concern. Accordingly, we have continued to develop a strategic plan to continue to generate a positive cash flow from operating activities for the fiscal years ending September 30, 2012 and 2013. Under this plan, we will continue to increase our presence in the OEM market both domestically and internationally with more aggressive marketing strategies to expand and secure our market base. We will also continue to implement reductions of both manufacturing costs and operating expenses to improve profit margins as well as reduce receivable turnover days through stronger credit controls.

Second Quarter Financial Performance Highlights

The following are some financial highlights for the third quarter of our fiscal year ended September 30, 2012:

- ***Net revenues***: Net revenues decreased by $286,000, or 0.6%, to $46.8 million for the three months ended June 30, 2012, from $47.1 million for the same period in 2011.
- ***Gross loss***: Gross loss was $5.1 million for the three months ended June 30, 2012, a change of $8.6 million from gross profit of $3.6 million for the same period in 2011.
- ***Operating loss***: Operating loss was $24.5 million for the three months ended June 30, 2012, an increase of $19.1 million from operating loss of $5.3 million for the same period in 2011.
- ***Net loss***: Net loss was $27.6 million for the three months ended June 30, 2012, an increase of $20.4 million, or 280.9%, from $7.2 million for the same period in 2011.
- ***Fully diluted net loss per share***: Fully diluted net loss per share was $0.44 for the three months ended June 30, 2012, as compared to $0.12 for the same period in 2011.

Financial Statement Presentation

Net revenues. Our net revenues represent the invoiced value of our products sold, net of value added taxes, or VAT, sales returns, trade discounts and allowances. We are subject to VAT, which is levied on most of our products at the rate of 17% on the invoiced value of our products. Provision for sales returns are recorded as a reduction of revenue in the same period that revenue is recognized. The provision for sales returns represents our best estimate of the amount of goods that will be returned from our customers based on historical sales returns data.

Cost of revenues. Cost of revenues consists primarily of material costs, employee remuneration for staff engaged in production activity, share-based compensation, depreciation and related expenses that are directly attributable to the production of products. Cost of revenues also includes write-downs of inventory to lower of cost or market. Cost of revenues from the sales of battery packs includes the fees we pay to pack manufacturers for assembling our prismatic cells into battery packs.

Research and development expenses. Research and development expenses primarily consist of remuneration for R&D staff, share-based compensation, depreciation and maintenance expenses relating to R&D equipment, and R&D material costs.

Sales and marketing expenses. Sales and marketing expenses consist primarily of remuneration for staff involved in selling and marketing efforts, including staff engaged in the packaging of goods for shipment, advertising cost, depreciation, share-based compensation and travel and entertainment expenses. We do not pay slotting fees to retail companies for displaying our products, engage in cooperative advertising programs, participate in buy-down programs or similar arrangements. No material estimates are required by management to determine our actual marketing or advertising costs for any period.

General and administrative expenses. General and administrative expenses consist primarily of employee remuneration, share-based compensation, professional fees, insurance, benefits, general office expenses, depreciation, liquidated damage charge and bad debt expenses.

Property, plant and equipment impairment charges. Impairment charges consist primarily of impairment losses for long-lived assets. These losses reflect the amounts by which the carrying values of these assets exceed their estimated fair value as determined by their estimated future discounted cash flows.

Government grant income. Government grant income for the three and nine months ended June 30, 2012 mainly consisted of receipt of grants to fund certain lithium battery research projects and to subsidize the payment for land use rights of BAK Industrial Park. No present or future obligation arises from the receipt of such amount.

Finance costs, net. Finance costs consist primarily of interest income, interest on bank loans, net of capitalized interest, and bank charges.

Income taxes. On March 16, 2007, the National People s Congress of China passed a new enterprise income tax law, or the EIT Law, and on November 28, 2007, the State Council of China passed its implementing rules, both of which took effect on January 1, 2008. The EIT Law unifies the application scope, tax rate, tax deduction and preferential policy for both domestic enterprises and foreign invested enterprises, or FIEs. The EIT Law gives existing FIEs a five-year grandfather period during which they can continue to enjoy their existing preferential tax treatments.

Shenzhen BAK and BAK Electronics are each recognized as a Manufacturing Enterprise Located in Special Economic Zone. As a result, they have been entitled to certain preferential tax rates. Shenzhen BAK s income tax rate after consideration of its tax concessions was 15% for both calendar years 2010 and 2011 and starting in calendar year 2012, it is expected to be subject to an income tax rate of 25%. BAK Electronics income tax rates were 11% and 24% for calendar years 2010 and 2011, respectively, and starting in calendar year 2012, it is expected to be subject to an income tax rate of 25%. BAK Electronics did not incur any enterprise income tax for the calendar year 2011 due to the current tax losses carried forward from calendar year 2009 and 2010. BAK Tianjin is currently paying no enterprise income tax due to cumulative tax losses.

Our Canadian, German, Indian, and Hong Kong subsidiaries BAK Canada, BAK Europe, BAK India, and BAK International are subject to profits taxed in their respective countries at rates of 38%, 25%, 30%, and 16.5%, respectively. However, because they do not have any assessable income derived from or arising in those countries, they have not paid any such tax.

Our effective tax expense rate was 5.6% for the nine months ended June 30, 2012, and our effective tax benefit rate was 2.1% for the nine months ended June 30, 2011.

Pursuant to the Provisional Regulation of China on Value Added Tax and its implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay VAT at a rate of 17.0% of the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayer. Further, when exporting goods, the exporter is entitled to some or all of the refund of VAT that it has already paid or borne. Our imported raw materials that are used for manufacturing export products and are deposited in bonded warehouses are exempt from import VAT.

Results of Operations

Comparison of Three Months Ended June 30, 2012 and June 30, 2011

The following tables set forth key components of our results of operations for the periods indicated, both in dollars and as a percentage of net revenues.

(All amounts, other than percentages, in thousands of U.S. dollars)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	$ Change	% Change
Net revenues	$ 46,844	$ 47,130	$ (286)	(0.6)
Cost of revenues	51,907	43,537	8,370	19.2
Gross (loss) / profit	(5,063)	3,593	(8,656)	(240.9)
Operating expenses:				
Research and development expenses	1,612	1,839	(227)	(12.3)
Sales and marketing expenses	2,257	2,042	215	10.5
General and administrative expenses	11,925	5,042	6, 883	136.5
Impairment charge	3,617	-	3,617	100.0
Total operating expenses	19,411	8,923	10,488	117.5
Operating loss	(24,474)	(5,330)	(19,144)	359.2
Finance costs, net	(2,799)	(2,711)	(88)	3.2
Government grant income	20	405	(385)	(95.1)
Other (expenses) / income	(68)	391	(459)	(117.4)
Income tax expenses	(275)	-	275	100.0
Net loss	$ (27,596)	$ (7,245)	$ (20,351)	280.9

Net revenues. Net revenues were $46.8 million for the three months ended June 30, 2012, as compared to $47.1 million for the same period in 2011, a decrease of $286,000, or 0.6% .

The following table sets forth the breakdown of our net revenues by battery cell type.

(All amounts in thousands of U.S. dollars)

	Three Months Ended June 30,	
	2012	2011
Prismatic cells	$	$
Aluminum-case cells	14,032	13,865
Battery packs	11,762	11,911
Cylindrical cells	11,099	17,291
Lithium polymer cells	6,338	2,009
High-power lithium battery cells	3,613	2,054
Total	$ 46,844	**$** 47,130

Net revenues from sales of aluminum-case cells slightly increased to $14.0 million in the three months ended June 30, 2012, from $13.9 million in the same period in 2011, an increase of $167,000, or 1.2%, resulting from an increase of 15.4% in our average selling price and offset by a decrease of 11.6% of sales volume driven by a decrease in sales to the domestic (PRC) market.

Net revenues from sales of battery packs decreased to $11.8 million in the three months ended June 30, 2012, from $11.9 million in the same period in 2011, a decrease of $149,000, or 1.3% . This resulted from a 16.5% decrease in average selling price, offset by an increase in sales volume of 16.5% driven by an increase in sales to the domestic (PRC) market.

Net revenues from sales of cylindrical cells decreased to $11.1 million in the three months ended June 30, 2012, from $17.3 million in the same period in 2011, a decrease of $6.2 million, or 35.8% . This resulted from a decrease in sales volume of 35.0% driven by a decrease in sales to the domestic (PRC) market and a 10.6% decrease in average selling price.

We sold $6.3 million in lithium polymer cells for the three months ended June 30, 2012, compared to $2.0 million in lithium polymer cells in the same period in 2011, an increase of $4.3 million, or 215.5%, resulting from an increase of 179.4% in sales volume, offset by a decrease of 21.2% in our average selling price.

We also sold approximately $3.6 million in high-power lithium battery cells for the three months ended June 30, 2012, as compared to $2.1 million in high-power lithium battery cells in the same period in 2011, due to our increased sales of products used in electric bicycles, power tools and other applications from our Tianjin facility over the three months ended March 31, 2012.

Cost of revenues. Cost of revenues increased to $51.9 million for the three months ended June 30, 2012, as compared to $43.5 million for the same period in 2011, an increase of $8.4 million, or 19.2% . The increase in cost of revenues was due to an increase in sales volume in new lithium polymer cell products over the three months ended June 30, 2012 and a significant write-down of obsolete inventory over the three months ended June 30, 2012.

Gross (loss) / profit. Gross loss for the three months ended June 30, 2012 was $5.1 million, or 10.8% of net revenues, as compared to gross profit of $3.6 million, or 7.6% of net revenues, for the same period in 2011. Our significant change from gross profit to gross loss was mainly due to:

a) decrease in gross profit from prismatic products, primarily battery packs, compared with the same period of 2011, primarily due to the continued increase in cost of goods sold as result of increase in raw materials costs and salaries;

b) a decrease in cylindrical cell products sales volume during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 and a significant increase in sales with negative gross profit compared with positive gross profit from cylindrical cell products during the same period of 2011 due to a significant increase in sales over the three months ended June 30, 2011 as the result of a sharp increase in market demand relating to an earthquake and tsunami that disrupted operations in Japan in March 2011;

c) gross loss from polymer products was mainly due to increased sales volume with negative gross profit compared with the same period of 2011as a result of the continuing lower yield rate of production; and

d) a significant write-down of obsolete inventory over the three months ended June 30, 2012.

Research and development expenses. Research and development expenses decreased to $1.6 million for the three months ended June 30, 2012, as compared to $1.8 million for the same period in 2011, a decrease of $227,000, or 12.3% . This decrease was mainly due to a decrease in research funds of approximately $35,000 and salaries of $191,000 as a result of a decrease in R&D projects.

Sales and marketing expenses. Sales and marketing expenses increased to $2.2 million for the three months ended June 30, 2012, as compared to $2.0 million for the same period in 2011, an increase of $215,000, or 10.5%, primarily due to increased salaries and social insurance benefits of $232,000. As a percentage of revenues, sales and marketing expenses have increased to 4.8% for the three months ended June 30, 2012, from 4.3% for the same period in 2011, primarily due to the decrease in revenues from sales over the three months ended June 30, 2012.

General and administrative expenses. General and administrative expenses increased to $11.9 million, or 25.5% of revenues, for the three months ended June 30, 2012, as compared to $5.0 million, or 10.7% of revenues, for the same period in 2011, an increase of $6.9 million, or 136.5% . The primary reason for the increase was that provision for bad debt expenses increased by $7.1 million over the three months ended June 30, 2012.

Property, plant and equipment impairment charge. Property, plant and equipment impairment charge increased to $3.6 million for the three months ended June 30, 2012. No impairment charge was recorded for the three months ended June 30, 2011. During the course of our strategic review of our operations for the three months ended June 30, 2012, we assessed the recoverability of the carrying value of certain property, plant and equipment which resulted in impairment losses of $3.6 million, from an assessment that the total net book value of assets grouped together was higher than its undiscounted cash flows from the identified cash-generating unit.

Operating loss. As a result of the above, operating loss totaled $24.5 million for the three months ended June 30, 2012, as compared to an operating loss of $5.3 million for the same period in 2011. As a percentage of net revenues, operating loss was 52.2% for the three months ended June 30, 2012, as compared to the loss of 11.3% for the same period in 2011.

Finance costs, net. Finance costs, net, increased to $2.8 million for the three months ended June 30, 2012, as compared to $2.7 million for the same period in 2011, an increase of $88,000, or 3.2% . The slight increase in net finance costs is mainly attributable to an increase in the average bank loan interest rates on both our short-term and long-term bank loans and in discounts charged for bills receivable recognized over the three months ended June 30, 2012.

Government grant income / Other Income. Government grant income was $20,000 and other income was $68,000 for the three months ended June 30, 2012, as compared to government grant income of $405,000 and other income of $391,000 for the same period in 2011.

Income tax (expense) / benefit. Income tax expense was $275,000 for the three months ended June 30, 2012, as compared to no income tax benefits or expenses for the same period in 2011.

Net loss. As a cumulative result of the foregoing, we had a net loss of $27.6 million for the three months ended June 30, 2012, compared to $7.2 million for the three months ended June 30, 2011.

Comparison of Nine Months Ended June 30, 2012 and June 30, 2011

The following table sets forth key components of our results of operations for the periods indicated. All amounts, other than percentages, are in thousands of U.S. dollars.

	Nine Months Ended June 30,			
	2012	**2011**	**$ Change**	**% Change**
Net revenues	$ 151,380	$ 157,370	$ (5,990)	(3.8)
Cost of revenues	146,282	139,332	6,950	5.0
Gross profit	5,098	18,038	(12,940)	(71.7)
Operating expenses:				
Research and development expenses	4,705	5,416	(711)	(13.1)
Sales and marketing expenses	5,967	6,514	(547)	(8.4)
General and administrative expenses	24,826	15,071	9,755	64.7
Impairment charge	6,324	-	6,324	100.0
Total operating expenses	41,822	27,001	14,821	54.9
Operating loss	(36,724)	(8,963)	(27,761)	309.7
Finance costs, net	(8,316)	(8,063)	(253)	3.1
Government grant income	2,029	1,042	987	94.7
Other income / (expenses)	363	681	(318)	(46.7)
Income tax (expenses) / benefit	(2,396)	316	(2,712)	(858.2)
Net loss	$ (45,044)	$ (14,987)	$ (30,057)	200.6

Net Revenues. Net revenues decreased to $151.4 million for the nine months ended June 30, 2012, as compared to $157.4 million for the same period of the prior year, a decrease of $6.0 million or 3.8% . The following sets forth the breakdown of our net revenues by battery cell type for the periods indicated.

	Nine Months Ended June 30, 2012	2011
	(in thousands)	
Prismatic cells		
Aluminum-case cells	$ 59,973	$ 60,714
Battery packs	41,388	41,608
Cylindrical cells	31,693	42,959
Lithium polymer cells	11,315	7,149
High-power lithium battery cells	7,011	4,940
Total	$ 151,380	$ 157,370

- Net revenues from sales of aluminum-case cells decreased to $59.9 million in the nine months ended June 30, 2012, from $60.7 million in the same period in fiscal year 2011, a decrease of $741,000 or 1.2%, resulting from a decrease of sales volume of 13.0% driven by decreased sales in the domestic (PRC) market, offset by an increase in our average selling price of 12.9%.
- Net revenues from sales of battery packs decreased to $41.4 million in the nine months ended June 30, 2012, from $41.6 million in the same period in fiscal year 2011, a decrease of $220,000 or 0.5%. This resulted from a decrease in sales volume of 6.5% due to decreased sales in the domestic (PRC) market, offset by a 16.8% increase in average selling price.
- Net revenues from sales of cylindrical cells decreased to $31.7 million in the nine months ended June 30, 2012, from $43.0 million in the same period in fiscal year 2011, a decrease of $11.3 million or 26.2%. This resulted from a decrease in sales volume of 28.1% due to a decrease in export sales and a 2.3% decrease in average selling price.
- We sold $11.3 million in lithium polymer cells in the nine months ended June 30, 2012, compared to $7.1 million in lithium polymer cells in the same period in fiscal year 2011, an increase of $4.2 million or 58.3%, resulting from an increase of 179.4% in sales volume, offset by a decrease of 12.0% in our average selling price.
- We also sold approximately $7.0 million in high-power lithium battery cells in the nine months ended June 30, 2012, as compared to $4.9 million in high-power lithium battery cells in the same period of fiscal year 2011, due to our increased sales of products used in electric bicycles, power tools, uninterruptible power supplies, and other applications from our Tianjin facility.

Cost of Revenues. Cost of revenues increased to $146.3 million for the nine months ended June 30, 2012, as compared to $139.3 million for the same period in fiscal year 2011, an increase of $7.0 million or 5.0% . The increase in cost of revenues was due to an increase in sales volume in new lithium polymer cell products over the nine months ended June 30, 2012 and significant write down of obsolete inventory over the nine months ended June 30, 2012.

Gross profit. Gross profit for the nine months ended June 30, 2012 was $5.1 million, or 3.4% of net revenues, as compared to gross profit of $18.0 million, or 11.5% of net revenues, for the same period in 2011. Our decrease in gross profit as a percentage of net revenues was primarily due to:

a) decrease in gross profit from prismatic products, primarily battery packs, compared with the same period of 2011, primarily due to the continued increase in cost of goods sold as result of increase in raw materials costs and salaries;

b) a decrease in cylindrical cell products sales volume during the nine months ended June 30, 2012 compared to the nine months ended June 30, 2011 due to a significant increase in sales over the nine months ended June 30, 2011 as the result of a sharp increase in market demand relating to an earthquake and tsunami that disrupted operations in Japan in March 2011;

c) gross loss from polymer products was mainly due to increased sales volume with negative gross profit compared with the same period of 2011as a result of the continuing lower yield rate of production; and

d) a significant write-down of obsolete inventory over the nine months ended June 30, 2012.

Research and Development Costs. Research and development costs decreased to $4.7 million for the nine months ended June 30, 2012, as compared to $5.4 million for the same period in fiscal year 2011, a decrease of $711,000, or 13.1% . This decrease was mainly due to a decrease in research funds of approximately $248,000 and salaries of $463,000 as a result of a decrease in R&D projects.

Sales and Marketing Expenses. Sales and marketing expenses decreased to $5.9 million for the nine months ended June 30, 2012, as compared to $6.5 million for the same period in fiscal year 2011, a decrease of $547,000, or 8.4%, primarily due to decreased packing and transportation expenses of $300,000, depreciation of $194,000 and repair and maintenance expenses of $73,000, resulting from improved cost control under our strategic plan. As a percentage of revenues, sales and marketing expenses have decreased to 3.9% for the nine months ended June 30, 2012 from 4.1% for the same period in 2011, due to decreased sales commissions on revenues from older products.

General and Administrative Expenses. General and administrative expenses increased to $24.8 million, or 16.4% of revenues, for the nine months ended June 30, 2012, as compared to $15.1 million, or 9.6% of revenues, for the same period in fiscal year 2011, an increase of $9.8 million, or 64.7% . Bad debt expenses increased by $8.3 million during the nine months ended June 30, 2012 due to the provision charged following an assessment of account collectability in the second quarter of 2012.

Property, plant and equipment impairment charge. Property, plant and equipment impairment charge increased to $6.3 million for the nine months ended June 30, 2012. No impairment charge was recorded for the nine months ended June 30, 2011. During the course of our strategic review of our operations for the nine months ended June 30, 2012, we assessed the recoverability of the carrying value of certain property, plant and equipment which resulted in impairment losses of $6.3 million, from an assessment that the total net book value of assets grouped together was higher than its undiscounted cash flows from the identified cash-generating unit.

Operating Loss. As a result of the above, operating loss totaled $36.7 million for the nine months ended June 30, 2012, as compared to $8.9 million for the same period of the prior year, an increase of $27.8 million, or 309.7% .

Finance Costs, Net. Finance costs, net, increased to $8.3 million for the nine months ended June 30, 2012, as compared to $8.1 million for the same period of the prior fiscal year, an increase of $253,000 or 3.1% . The increase in net finance costs is mainly attributable to an increase in the average bank loan interest rates on both our short-term and long-term bank loans and in discounts charged for bills receivable recognized during the nine months ended June 30, 2012.

Government Grant Income / Other Income. Government grant income was $2.0 million and other income was $363,000 for the nine months ended June 30, 2012, as compared to government grant income of $1.0 million and other income of $682,000 for the same period in 2011. Government grant income for the nine months ended June 30, 2012 mainly consisted of government grant funds as follows: $1.8 million to fund certain lithium battery research projects and $194,000 representing amortization of government subsidies received in relation to the additional cost of the land use rights of BAK Industrial Park. No present or future obligation arose from the receipt of such government subsidies.

Income Tax (Expenses) / Benefits. Income tax expenses were $2.4 million for the nine months ended June 30, 2012, as compared to income tax benefits of $316,000 for the same period of 2011. The change was the result of an increase of the allowance for deferred tax assets that may not be realized during the nine months ended June 30, 2012.

Net Loss. As a result of the foregoing, we had a net loss of $45.0 million for the nine months ended June 30, 2012 compared to $15.0 million for the same period of 2011.

Liquidity and Capital Resources

We have historically financed our liquidity requirements from a variety of sources, including short-term bank loans, long-term bank loans and bills payable under bank credit agreements, sale of bills receivable and issuance of capital stock. As of June 30, 2012, we had cash and cash equivalents of $13.1 million. In addition, we had pledged deposits amounting to $4.7 million. Typically, banks will require borrowers to maintain deposits of approximately 10% to 100% of the outstanding loan balances and bills payable. The individual bank loans have maturities ranging from six to twelve months which coincides with the periods the cash remains pledged to the banks. As of June 30, 2012, we had access to $219.6 million in short-term credit facilities and $23.6 million in long-term credit facilities.

As of June 30, 2012, the principal outstanding amounts included short-term bank loans of $146.3 million under credit facilities and long-term bank loans of $23.4 million maturing in over one year, and bills payable of $66.2 million under credit facilities, leaving $40.5 million of short-term funds available under our credit facilities for additional cash needs.

The following table sets forth a summary of our cash flows for the periods indicated:

Cash Flows

(All amounts in thousands of U.S. dollars)

	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2011
Net cash provided by operating activities	$ 12,383	$ 25,719
Net cash used in investing activities	(15,896)	(25,907)
Net cash used in financing activities	(8,189)	(6,051)
Effect of exchange rate changes on cash and cash equivalents	(80)	749
Net decrease in cash and cash equivalents	(11,782)	(5,490)
Cash and cash equivalents at beginning of the period	24,858	22,589
Cash and cash equivalents at end of the period	$ 13,076	$ 17,099

Operating Activities

Net cash provided by operating activities was $12.4 million in the nine months ended June 30, 2012, as compared with $25.7 million in net cash provided by operating activities in the same period in 2011. The decrease of $13.3 million in net cash provided by operating activities was mainly attributable to the settlement of overdue accounts payables to our suppliers.

Investing Activities

Net cash used in investing activities decreased to $15.9 million in the nine months ended June 30, 2012 from $25.9 million in the same period in 2011. The net cash used in investing activities for the nine months ended June 30, 2012, was mainly used for the procurement of machinery and equipment for our polymer cell line and construction of our Research and Development Test Centre in Shenzhen.

Financing Activities

Net cash used in financing activities increased to $8.2 million in the nine months ended June 30, 2012 from $6.1 million in the same period in 2011. This was mainly attributable to a decrease in pledged deposits of $2.1 million.

As of June 30, 2012, the principal amounts outstanding under our credit facilities and lines of credit were as follows:

(All amounts in thousands of U.S. dollars)

		Maximum Amount Available		Amount Borrowed (includes bank loans and bills payable)
Short-term credit facilities:	$		$	
Agricultural Bank of China		70,809		66,089
Shenzhen Development Bank		28,324		20,456
China CITIC Bank		11,802		7,868
Bank of China		62,942		54,686
China Everbright Bank		12,588		11,727
China Construction Bank		7,970		7,396
China Bohai Bank		12,588		2,675
Tianjin Branch, Bank of Dalian		12,588		8,406
Subtotal Short-term credit facilities	$	219,611	$	179,303
Long-term credit facilities:				
China Development Bank		23,603		23,398
Subtotal Long-term credit facilities	$	23,603	$	23,398
Lines of Credit:				
Shenzhen Branch, Bank of China				31,938
Agricultural Bank of China				803
Tianjin Branch, Bank of China				530
Subtotal Lines of credit			$	33,271
Total	$	276,485	$	235,972

The above principal outstanding amounts under credit facilities and lines of credit included short-term bank loans of $146.3 million and long-term bank loans of $23.4 million maturing in over one year, and bills payable of $66.2 million. For the purpose of presentation, the effect of increases in bills payable balances is included in operating activities in the statements of cash flows.

During the three months ended June 30, 2012, we repaid borrowings under loans totaling approximately $26.0 million and borrowed amounts totaling approximately $32.8 million. The material financing terms of these borrowings are described below.

On May 29, 2012, our subsidiary BAK Tianjin entered into a comprehensive credit facility agreement with Tianjin Branch, China Bohai Bank to provide a maximum amount of RMB 80 million (approximately $12.6 million). Loans may be drawn at any time over the period from May 29, 2012 to May 28, 2013 and will be due based on each loan agreement. This credit facility agreement was guaranteed by Shenzhen BAK Battery Co., Ltd. During the fiscal quarter ended June 30, 2012, we received a loan of approximately $2.7 million under a loan agreement dated May 29, 2012, bearing annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement and adjusted in line with the adjustment of the benchmark rate, and due May 28, 2013.

On November 11, 2011, we renewed a comprehensive credit facility agreement with China Everbright Bank to provide a maximum amount of RMB 80 million (approximately $12.6 million), including RMB 40 million to support bank acceptance bills (instruments commonly used in China that are similar to letters of credit) and RMB 40 million to cover discounts on our notes receivable due to their assignment to certain banks, suppliers, vendors, and other creditors from November 11, 2011 to November 11, 2012. This credit facility agreement is guaranteed by BAK International, BAK Tianjin and Mr. Xiangqian Li. As of June 30, 2012, we had borrowed $11.7 million of notes payable under this credit facility agreement.

On January 16, 2012, our subsidiary BAK Tianjin entered into a loan agreement with Tianjin Branch, China Construction Bank. The loan is in the amount of RMB 47 million (approximately $7.4 million), carries annual interest at 105% of the benchmark rate of the People s Bank of China, or PBOC, and is due on January 15, 2013. The loan agreement specifically provides for acceleration of repayment of the loan under certain conditions, as well as other penalties and remedies. The loan agreement was guaranteed by BAK Tianjin and Shenzhen BAK.

We have a comprehensive credit facility agreement with Agricultural Bank of China, Shenzhen Eastern Branch, or Agricultural Bank Shenzhen Branch, to provide a maximum loan amount of RMB 450 million (approximately $70.8 million), including RMB 400 million (approximately $62.9 million) of one-year term credit facilities and RMB 50 million (approximately $7.9 million) of five-year term credit facilities. This comprehensive credit facility agreement renewed a predecessor credit facility agreement between Shenzhen BAK and Agricultural Bank Shenzhen Branch dated November 15, 2010 and governs all loans that were subject to the predecessor agreement at the time of the renewal. New loans may be drawn under this credit facility from November 30, 2011 through November 24, 2012, with the term of the loan established at the time each new loan is drawn, except as to funds borrowed under a loan agreement between Shenzhen BAK and Agricultural Bank Shenzhen Branch dated November 23, 2006 and effective December 18, 2006, or the 2006 Loan Agreement, which may be drawn at any time within five years of December 18, 2006, and which will mature five years after such funds are drawn. Pursuant to the comprehensive credit facility, Shenzhen BAK must obtain prior approval from Agricultural Bank Shenzhen Branch to renew long-term loans that are subject to this credit facility. In addition, Shenzhen BAK undertook to ensure that the percentage of certain business conducted with Agricultural Bank Shenzhen Branch relative to such business it conducts with all financial institutions combined be at least equal to the percentage of its indebtedness to Agricultural Bank Shenzhen Branch relative to its indebtedness to all financial institutions combined (referred to as the Percentages Undertaking). The business referred to in the preceding sentence refers to the volume of transactional payments that are drawn from Shenzhen BAK s accounts with Agricultural Bank Shenzhen Branch or applicable financial institutions and the amount of foreign currencies deposited with Agricultural Bank Shenzhen Branch or applicable financial institutions. Shenzhen BAK also undertook not to issue any dividends without the written consent of Agricultural Bank Shenzhen Branch prior to the expiration of all loans under this credit facility (this undertaking and the Percentages Undertaking are collectively referred to as the Undertakings). The obligations of Shenzhen BAK under this comprehensive credit facility are guaranteed by Mr. Xiangqian Li and BAK International. Shenzhen BAK s obligations under this credit facility agreement are also guaranteed by Shenzhen BAK s pledge of the property ownership and land use rights certificates relating to its manufacturing and other facilities in Shenzhen, PRC, known as BAK Industrial Park, as well as certain machinery. In the event that Shenzhen BAK breaches any of the Undertakings or any guaranteed party breaches any of its guaranty obligations, Agricultural Bank Shenzhen Branch may, in addition to exercising any other applicable remedies under the applicable agreements, accelerate repayment of all loan amounts governed by this credit facility.

As of June 30, 2012, we had ten outstanding short-term loans under the comprehensive credit facility with Agricultural Bank Shenzhen Branch, totaling approximately $62.9 million, and carry annual interest at 110% of the benchmark rate of the PBOC, adjusted quarterly. The first loan, of approximately $7.8 million, is under a loan agreement dated March 28, 2012, carries annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement and is due on March 14, 2013. The second loan, of approximately $7.8 million, is under a loan agreement dated March 29, 2012, carries annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement and is due on February 27, 2013. The third loan, of approximately $7.8 million, is under two loan agreements dated January 10, 2012, bears fixed annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement, and is due January 9, 2013. The fourth loan, of approximately $7.8 million, is under a loan agreement dated January 12, 2012, bearing fixed annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement, and is due January 11, 2013. The fifth loan, of approximately $4.7 million, bears fixed annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement, and is due March 26, 2013. The sixth loan, of approximately $2.4 million, bears fixed annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement, and is due January 9, 2013. The seventh loan, of approximately $7.9 million, bears fixed annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement, and is due October 24, 2012. During the quarter ended June 30, 2012, a loan of approximately $9.5 million, bearing annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement and adjusted monthly, was due on May 9, 2012, and repaid on May 8, 2012. The loan was replaced with two loans, the eighth and ninth loans held under this credit facility at the end of the quarter, of approximately $9.6 million in total under two loan agreements dated April 23, 2012 and April 24, 2012, respectively. The eighth loan, of approximately $4.8 million, bears fixed annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement, and is due April 22, 2013. The ninth loan, of approximately $4.8 million, bears fixed annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement, is repayable on April 12, 2013. The tenth loan, of approximately $7.1 million, is under a loan agreement dated April 6, 2012, carries annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement and is due November 20, 2012. Each of the loan agreements specifically provided for acceleration of repayment of the loan under certain conditions, as well as other penalties and remedies. We had also borrowed $3.1 million of notes payable under this credit facility agreement. In addition, we had also borrowed $0.8 million of notes payable separate from the credit facility.

We have a comprehensive credit facility agreement with Tianjin Branch, Bank of Dalian, to provide a maximum loan amount of RMB 80 million (approximately $12.6 million). Loans may be drawn at any time over the period from November 22, 2011 to November 21, 2012 and will be due based on each loan agreement. This credit facility agreement was guaranteed by Shenzhen BAK Battery Co., Ltd. and Mr. Xiangqian Li. During the fiscal quarter ended June 30, 2012, we had a loan of approximately $7.9 million under a loan agreement dated November 24, 2011, bearing annual interest at 130% of the benchmark rate of the PBOC on the date of the loan agreement and adjusted in line with the adjustment of the benchmark rate, repayable on November 23, 2012, and we had also borrowed $0.5 million of notes payable under this credit facility agreement.

As of June 30, 2012, we renewed our comprehensive credit facility agreement with Shenzhen Branch, China Citic Bank, or China Citic Bank, to provide a maximum loan amount of RMB 75 million (approximately $11.8 million). Loans may be drawn at any time from June 13, 2012 to June 13, 2013 and will be due based on each loan agreement. This credit facility was guaranteed by BAK International and Mr. Xiangqian Li. As of June 30, 2012, we had borrowed $7.9 million under two loan agreements. The first loan, of approximately $6.3 million, is under a loan agreement dated June 20, 2012, bears fixed annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement, and is due June 20, 2013. The second loan, of approximately $1.6 million, is under a loan agreement dated June 29, 2012, bears fixed annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement, and is due June 29, 2013. During the quarter ended June 30, 2012, on June 3, 2012, we also repaid a loan due on June 3, 2012 under the former credit facility of approximately $6.3 million, which carried annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement as adjusted under the credit facility.

As of June 30, 2012, we had a comprehensive credit facility agreement with Shenzhen Longgang Branch, Bank of China, or Bank of China, to provide a maximum loan amount of RMB 450 million (approximately $71.5 million). Loans may be drawn at any time from May 3, 2011 to May 3, 2012 and will be due based on each loan agreement. This credit facility was guaranteed by BAK International and Mr. Xiangqian Li. As of June 30, 2012, we had four outstanding short-term loans under the comprehensive credit facility totaling $31.5 million. The first loan, of approximately $7.8 million, carries annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement and adjusted every three months, and is repayable on July 26, 2012. The second loan, of approximately $7.9 million, carries annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement and adjusted every three months, and is repayable on July 28, 2012. The third loan, of approximately $7.9 million, carries annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement and adjusted every three months, and is repayable on August 2, 2012. The fourth loan, of approximately $7.9 million, carries annual interest at 110% of the benchmark rate of the PBOC on the date of the loan agreement and adjusted every three months, and is repayable on November 7, 2012. We had borrowed $23.2 million of notes payable under this credit facility agreement. In addition, during June 2012, we borrowed approximately $5.6 million from Bank of China under a number of loan certificates separate from the credit facility, at the interest rate of 6.1425%, and repayable on certain dates from July 19, 2012 to November 7, 2012. We also had $26.3 million of notes payable separate from the credit facility.

As of June 30, 2012, we renewed our comprehensive credit facility agreement with Shenzhen Development Bank, Longgang Branch, or Shenzhen Development Bank, to provide a maximum loan amount of RMB 180 million (approximately $28.3 million). Loans may be drawn at any time from June 5, 2012 to May 31, 2013 and will be due based on each loan agreement. This credit facility agreement was guaranteed by BAK International, BAK Tianjin and Mr. Xiangqian Li, and also was secured by $23.6 million of inventory. During the fiscal quarter ended June 30, 2012, we repaid three short-term loans totaling approximately $23.7 million and entered into two new loans totaling approximately $20.5 million under the comprehensive credit facility with Shenzhen Development Bank. The first repaid loan, dated October 19, 2011, was for the amount of approximately $11.1 million, carried annual interest at 107% of the benchmark rate of the PBOC on the date of the loan agreement and adjusted every three months, and was repayable on July 18, 2012. The second repaid loan, dated September 27, 2011, was approximately $9.4 million, carried annual interest at 107% of the benchmark rate of the PBOC on the date of the loan agreement and adjusted every three months, and was repayable on July 18, 2012. The third repaid loan, dated June 13, 2011, was approximately $3.2 million, carried annual interest at the benchmark rate of the PBOC on the date of the loan agreement and adjusted quarterly, and was repayable on June 16, 2012. The third loan was repaid on June 15, 2012. The first two of these loans were repaid on July 9, 2012, and replaced with two new loans of approximately $20.5 million in total. The first new loan, dated July 6, 2012, of approximately $3.2 million, carries annual interest at 105% of the benchmark rate of the PBOC on the date of the loan agreement and adjusted quarterly, and is repayable on July 5, 2013. The second new loan, also dated July 6, 2012, of approximately $17.3 million, carries annual interest at the benchmark rate of the PBOC on the date of the loan agreement and adjusted quarterly, and is repayable on July 5, 2013.

As of June 30, 2012, we had also borrowed $0.5 million of notes payable outside any credit facility from Bank of China, Tianjin Branch.

As of June 30, 2012, we had a six-year long-term loan agreement expiring on February 9, 2016 of RMB 150 million (approximately $23.6 million) with Shenzhen Branch, China Development Bank, or China Development Bank. Under the loan agreement, the loan amount was to be drawn in four installments as follows: (1) RMB 50 million (approximately $7.8 million) in February 2010; (2) RMB 30 million (approximately $4.8 million) in July 2010; (3) RMB 30 million (approximately $4.8 million) in January 2011; and (4) RMB 40 million (approximately $6.2 million) in June 2011. The loan principal is to be repaid in seven installments according to the following schedule: (1) RMB 10 million (approximately $1.6 million) on November 21, 2012; (2) RMB 20 million (approximately $3.1 million) on May 21, 2013; (3) RMB 20 million (approximately $3.1 million) on November 21, 2013; (4) RMB 20 million (approximately $3.1 million) on May 21, 2014; (5) RMB 25 million (approximately $3.9 million) on November 21, 2014; (6) RMB 25 million (approximately $3.9 million) on May 21, 2015; and (7) RMB 30 million (approximately $4.7 million) on February 9, 2016. The interest rate was originally agreed to be 5.90% for the first installment and the then-published base rate for 6-year loans published by the PBOC for subsequent installments. Interest is to be calculated and settled every March 20, June 20, September 20, and December 20 each year, and payable the following business day. Pursuant to a Supplemental Agreement dated June 13, 2011, all loans under the agreement carry interest at 105% of the PBOC benchmark rate. The loan proceeds must be used for the construction of our Research & Development Test Centre in Shenzhen. The long-term loan is secured by Shenzhen BAK s pledge of its land use rights certificates, property ownership and equipment built-up by use of this long-term loan pursuant to the loan agreement. According to the property ownership and land use rights certificate that we obtained in relation to this facility, the certificate may not be pledged without the approval of the relevant government office. On April 7, 2010, the pledge of the land use rights certificate to China Development Bank was approved by the relevant government bureau. For further discussion regarding the status of property ownership rights relating to this facility, please see Capital Expenditures. The obligations of Shenzhen BAK under this loan agreement are guaranteed by Mr. Xiangqian Li.

In consultation with China Development Bank, as of June 30, 2012, we had borrowed approximately RMB 148.7 (or approximately $23.4 million) in ten loans under this agreement based on our updated evaluation of the expected construction costs of our Research & Development Test Centre. The first loan, dated March 1, 2010, is in the amount of RMB 50 million (approximately $7.9 million) under a loan agreement with China Development Bank, bearing annual interest of 5.90%, adjusted monthly, and repayable within 72 months. The second loan, dated June 13, 2011, is in the amount of approximately RMB 45.6 million (or approximately $7.2 million), carries interest at 7.14%, and is repayable on February 9, 2016. The third loan, dated October 10, 2011, is in the amount of approximately RMB 3.1 million (approximately $0.5 million), carries interest at 7.4025%, and is repayable within 72 months. The fourth loan, dated October 28, 2011, is in the amount of RMB 8 million (approximately $1.3 million), carries interest at 7.4025%, and is repayable within 72 months. The fifth loan, dated November 4, 2011, is in the amount of RMB 6 million (approximately $1.0 million), carries interest at 7.4025%, and is repayable within 72 months. The sixth loan, dated November 10, 2011, is in the amount of RMB 3 million (approximately $0.5 million), carries interest at 7.4025%, and is repayable within 72 months. The seventh loan, dated November 17, 2011, is in the amount of RMB 3 million (approximately $0.5 million), carries interest at 7.4025%, and is repayable within 72 months. The eighth loan, dated November 29, 2011, is in the amount of RMB 5 million (approximately $0.7 million), carries interest at 7.4025%, and is repayable within 72 months. The ninth loan, dated December 9, 2011, is in the amount of approximately RMB 3.4 million (approximately $0.5 million), carries interest at 7.4025%, and is repayable within 72 months. The tenth loan, dated January 13, 2012, is in the amount of approximately RMB 21.6 million (approximately $3.3 million), carries interest at 7.4025%, and is repayable within 72 months. China Development Bank has not charged any interest or penalties relating to the portion of the loan that we have not drawn in accordance with the loan agreement s borrowing schedule and has advised us that we are not required to repay the loans in accordance with the loan agreement s repayment schedule, and we may instead follow the repayment schedule indicated by each loan s loan certificate reflected in this paragraph.

We had negative working capital of $131.7 million as of June 30, 2012, as compared to negative working capital of $105.4 million as of September 30, 2011, an increase in negative working capital of $26.3 million. Current assets as of June 30, 2012 were $184.9 million, compared with $197.3 million as of September 30, 2011, a decrease of $12.4 million. Current liabilities as of June 30, 2012 were $316.6 million, compared with $302.6 million as of September 30, 2011, an increase of $14.0 million. We had short-term bank loans maturing in less than one year of $146.3 million, as compared to a total of $163.2 million of such loans as of September 30, 2011, a decrease of $16.9 million. We had long-term bank loans maturing in over one year of $23.4 million as of June 30, 2012, as compared to $15.0 million of such loans as of September 30, 2011, an increase of $8.4 million.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash and amount available under existing credit facilities is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. And we also will continue to reinforce our efforts to improve the collection of receivables and consider strategic asset dispositions. We can make no assurances that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute the interests of our current shareholders. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

Capital Expenditures

We made capital expenditures of $15.9 million and $26.5 million in the nine months ended June 30, 2012 and 2011, respectively. Our capital expenditures were used primarily to purchase plant and equipment to expand our production capacity and construct our Research and Development Test Centre in Shenzhen, China. The table below sets forth the breakdown of our capital expenditures by use for the periods indicated.

(All amounts in thousands of U.S. dollars)

	Nine Months Ended June 30,	
	2012	**2011**
Construction costs	$ 6,843	$ 13,156
Purchase of equipment and intangible assets	9,053	13,376
Total capital expenditure	$ 15,896	$ 26,532

We estimate that our total capital expenditures in fiscal year 2012 will reach approximately $20.0 million. Such funds will be used to purchase manufacturing equipment for the expansion of our production lines and for the construction of our Research and Development Test Centre at our Shenzhen facility.

As of June 30, 2012, we have substantially completed manufacturing facilities, warehousing and packaging facilities, dormitory space, dining halls, and administrative offices comprising 284,160 square meters at the following locations: Shenzhen (218,178 square meters) and Tianjin (65,982 square meters). Land use rights certificates have been obtained on these properties and applications for ownership certificates are in process with the relevant governmental authorities in China.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations and commercial commitments as of June 30, 2012:

(All amounts in thousands of U.S. dollars)

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term bank loans	$ 146,324	$ 146,324	$ -	$ -	$ -
Bills payable	66,249	66,249	-	-	-
Long-term bank loans	23,398	-	-	23,398	-
Capital commitments	18,851	18,851	-	-	-
Future interest payment on short-term bank loans	5,124	5,124	-	-	-
Future interest payment on long-term bank loans	6,624	1,732	3,464	1,428	-
Total	$ 266,570	$ 238,280	$ 3,464	$ 24,826	$ -

Other than the contractual obligations and commercial commitments set forth above, we did not have any other long-term debt obligations, operating lease obligations, capital commitments, purchase obligations or other long-term liabilities as of June 30, 2012.

Off-Balance Sheet Transactions

In the ordinary course of business practices in China, we enter into transactions with banks or other lenders where we guarantee the debt of other parties. These parties may be related or unrelated to us. Conversely, our debt with lenders may also be guaranteed by other parties which may be related or unrelated to us.

Under U.S. GAAP, these transactions may not be recorded on our balance sheet or may be recorded in amounts different than the full contract or notional amount of the transaction. Our primary off-balance sheet arrangements would result from our loan guaranties in which Shenzhen BAK, BAK International, BAK Tianjin, and/or Mr. Xiangqian Li, our director, Chairman, President, and Chief Executive Officer, would provide contractual assurance of the debt, or guarantee the timely re-payment of principal and interest of the guaranteed party. Neither Shenzhen BAK, BAK International, BAK Tianjin, nor Mr. Xiangqian Li received, nor is entitled to receive, any consideration for the above-referenced guarantees, and we are not independently obligated to indemnify any of those guarantors for any amounts paid by them pursuant to any guarantee.

Typically, no fees are received for this service. Thus, in those transactions, Shenzhen BAK would have a contingent obligation related to the guarantee of payment in the event the underlying loan is in default.

Transactions described above require accounting treatment under ASC Topic 460 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Under that standard, we would be required to recognize the fair value of guarantees issued or modified after December 31, 2002, for non-contingent guarantee obligations, and also a liability for contingent guarantee obligations based on the probability that the guaranteed party will not perform under the contractual terms of the guaranty agreement.

We have assessed the contingent liabilities arising from the above-described guarantees and have considered them immaterial to the consolidated financial statements. Therefore, no liabilities in respect of the guarantees were recognized as of June 30, 2012. As of June 30, 2012, we provided guarantees for the following non-related parties: Shenzhen Tongli Hi-tech Co. Ltd., Shenzhen B&G Technology Development Co. Ltd., Shenzhen Yasu Technology Co. Ltd., Tianjin Huaxia Hongyuan Industrial Co. Ltd. and Tianjin Bike New Energy Research Institute. The maximum amount of our exposure for these guarantees was $34.7 million and $21.1 million at June 30, 2012 and September 30, 2011, respectively.

Interest Rate Risk

We are exposed to interest rate risk primarily with respect to our short-term bank loans and long-term bank loans. Although the interest rates, which are based on the banks prime rates with respect to our short-term loans are fixed for the terms of the loans, the terms are typically six to twelve months for short-term bank loans and interest rates are subject to change upon renewal. There were no material changes in interest rates for short-term bank loans renewed during the three months ended June 30, 2012.

Please refer to Liquidity and Capital Resources Financing Activities for a discussion of our credit facilities and loan agreements.

A hypothetical 1.0% increase in the annual interest rates for all of our credit facilities under which we had outstanding borrowings at June 30, 2012, would increase loss before income taxes by approximately $1.7 million, and cause a net loss before provision for income taxes of approximately $44.3 million for the nine months ended June 30, 2012.

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

Although our reporting currency is the U.S. dollar, the financial records of our operating subsidiaries are maintained in their local currency, the RMB, which is our functional currency. Approximately 96.8% of our revenues and 95.5% of our costs and expenses for the three months ended June 30, 2012 are denominated in RMB, with the balance denominated in U.S. dollars. Approximately 99.9% of our assets excluding cash were denominated in RMB as of June 30, 2012. 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 U.S. dollars and 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 of our operating subsidiaries are translated into U.S. dollars at the exchange rate at the balance sheet date, their equity accounts are translated at historical exchange rate and their income and expenses items are translated using the average rate for the period. Any resulting exchange differences are recorded in accumulated other comprehensive income or loss. An average appreciation (depreciation) of the RMB against the U.S. dollar of 5% would increase (decrease) our comprehensive income by $6.4 million based on our outstanding revenues, costs and expenses, assets and liabilities denominated in RMB as of June 30, 2012. As of June 30, 2012, our accumulated other comprehensive income was $36.6 million. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

Critical Accounting Policies

Our consolidated financial information has been prepared in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (3) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application. There have been no material changes to the critical accounting policies previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Changes in Accounting Standards

Please refer to note 1 to our condensed interim consolidated financial statements, Principal Activities, Basis of Presentation and Organization Recently Issued Accounting Standards, for a discussion of relevant pronouncements.

Exchange Rates

The financial records of Shenzhen BAK, BAK Electronics and BAK Tianjin are maintained in RMB. In order to prepare our financial statements, we have translated amounts in RMB into amounts in U.S. dollars. The amounts of our assets and liabilities on our balance sheets are translated using the closing exchange rate as of the date of the balance sheet. Revenues, expenses, gains and losses are translated using the average exchange rate prevailing during the period covered by such financial statements. Adjustments resulting from the translation, if any, are included in our cumulative other comprehensive income / (loss) in our stockholders equity section of our balance sheet. All other amounts that were originally booked in RMB and translated into U.S. dollars were translated using the closing exchange rate on the date of recognition. Consequently, the exchange rates at which the amounts in those comparisons were computed varied from year to year.

The exchange rates used to translate amounts in RMB into U.S. dollars in connection with the preparation of our financial statements were as follows:

	RMB per U.S. Dollar	
	2012	**2011**
Balance sheet items as of June 30	6.3551	6.4634
Amounts included in the statement of income and comprehensive loss, statement of changes in stockholders equity and statement of cash flows for the nine months ended June 30	6.3302	6.5616
Balance sheet items as of September 30	-	6.3843

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information required by this item is discussed above in Item 2. Management s Discussion and Analysis of Results of Operations Interest Rate Risk and Foreign Exchange Risk.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, our management has carried out an evaluation, with the participation and under the supervision of our chief executive officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2012. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Management conducted its evaluation of disclosure controls and procedures under the supervision of our chief executive officer. Based upon, and as of the date of this evaluation, our chief executive officer concluded that our disclosure controls and procedures were effective as of June 30, 2012.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our fiscal quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business. Other than the legal proceedings described in Item 3 Legal Proceedings of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, we are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results. Investors are directed to Item 3 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 for the description of these legal proceedings. There have been no material developments to these legal proceedings during the three months ended June 30, 2012.

ITEM 1A. RISK FACTORS.

There are no material changes from the risk factors previously disclosed in Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

We have no information to disclose that was required to be in a report on Form 8-K during the period covered by this report, but was not reported. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

ITEM 6. EXHIBITS.

The following exhibits are filed as part of this report or incorporated by reference:

Exhibit No.	Description
31.1	Certifications of Principal Executive Officer and Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer and Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Loan Agreement (English summary), dated April 6, 2012, between Shenzhen BAK Battery Co., Ltd. and Shenzhen Eastern Branch, Agricultural Bank of China
99.2	Loan Agreement (English summary), dated April 23, 2012, between Shenzhen BAK Battery Co., Ltd. and Shenzhen Eastern Branch, Agricultural Bank of China
99.3	Loan Agreement (English summary), dated April 24, 2012, between Shenzhen BAK Battery Co., Ltd. and Shenzhen Eastern Branch, Agricultural Bank of China
99.4	Comprehensive Credit Facility Agreement of Maximum Amount (English summary), dated June 13, 2012, between Shenzhen BAK Battery Co., Ltd and Shenzhen Branch, China Citic Bank Co., Ltd
99.5	Loan Agreement (English summary), dated June 20, 2012, between Shenzhen BAK Battery Co., Ltd. and Shenzhen Branch, China CITIC Bank Co., Ltd
99.6	Loan Agreement (English summary), dated June 29, 2012, between Shenzhen BAK Battery Co., Ltd. and Shenzhen Branch, China CITIC Bank Co., Ltd
99.7	Guaranty Contract of Maximum Amount (English summary), dated June 13, 2012, between BAK International Limited and Shenzhen Branch, China Citic Bank Co., Ltd
99.8	Guaranty Contract of Maximum Amount (English summary), dated June 13, 2012, between Xiangqian Li and Shenzhen Branch, China Citic Bank Co., Ltd
99.9	Comprehensive Credit Facility Agreement of Maximum Amount (English summary), dated May 29, 2012, between BAK International (Tianjin) Limited and Tianjin Branch, China Bohai Bank
99.10	Loan Agreement (English summary), dated May 29, 2012, between BAK International (Tianjin) Limited and Tianjin Branch, China Bohai Bank
99.11	Guaranty Contract of Maximum Amount (English summary), dated May 29, 2012, between Shenzhen BAK Battery Co., Ltd. and Tianjin Branch, China Bohai Bank
99.12	Comprehensive Credit Facility Agreement of Maximum Amount (English summary), dated June 5, 2012, between Shenzhen BAK Battery Co., Ltd and Shenzhen Longgang Branch, Shenzhen Development Bank Co., Ltd
99.13	

	Loan Agreement (English summary), dated July 6, 2012, between Shenzhen BAK Battery Co., Ltd. and Longgang Branch, Shenzhen Development Bank Co., Ltd
99.14	Loan Agreement (English summary), dated July 6, 2012, between Shenzhen BAK Battery Co., Ltd. and Longgang Branch, Shenzhen Development Bank Co., Ltd
99.15	Guaranty Contract of Maximum Amount (English summary), dated June 5, 2012, between BAK International Limited and Longgang Branch, Shenzhen Development Bank Co., Ltd
99.16	Guaranty Contract of Maximum Amount (English summary), dated June 5, 2012, between BAK International (Tianjin) Limited and Longgang Branch, Shenzhen Development Bank Co., Ltd
99.17	Guaranty Contract of Maximum Amount (English summary), dated June 5, 2012, between Xiangqian Li and Longgang Branch, Shenzhen Development Bank Co., Ltd
99.18	Mortgage Contract of Maximum Amount (English summary), dated June 5, 2012, between Shenzhen BAK Battery, Co., Ltd and Longgang Branch, Shenzhen Development Bank Co., Ltd

Exhibit No.	Description
99.19	Mortgage Contract of Maximum Amount (English summary), dated June 5, 2012, between Shenzhen BAK Battery, Co., Ltd and Longgang Branch, Shenzhen Development Bank Co., Ltd
99.20	Loan Certificate (English summary), dated June 11, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.21	Loan Certificate (English summary), dated June 11, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.22	Loan Certificate (English summary), dated June 11, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.23	Loan Certificate (English summary), dated June 11, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.24	Loan Certificate (English summary), dated June 11, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.25	Loan Certificate (English summary), dated June 11, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.26	Loan Certificate (English summary), dated June 11, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.27	Loan Certificate (English summary), dated June 11, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.28	Loan Certificate (English summary), dated June 11, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.29	Loan Certificate (English summary), dated June 18, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.30	Loan Certificate (English summary), dated June 18, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
99.31	Loan Certificate (English summary), dated June 18, 2012, between Shenzhen BAK Battery Co., Ltd. and Bank of China, Shenzhen Branch
101	Interactive data files pursuant to Rule 405 of Regulation S-T (furnished herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 9, 2012 **CHINA BAK BATTERY, INC.**

By: /s/ Xiangqian Li
Xiangqian Li, Chief Executive Officer
(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certifications of Principal Executive Officer and Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer and Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Loan Agreement (English summary), dated April 6, 2012, between Shenzhen BAK Battery Co., Ltd. and Shenzhen Eastern Branch, Agricultural Bank of China
99.2	Loan Agreement (English summary), dated April 23, 2012, between Shenzhen BAK Battery Co., Ltd. and Shenzhen Eastern Branch, Agricultural Bank of China
99.3	Loan Agreement (English summary), dated April 24, 2012, between Shenzhen BAK Battery Co., Ltd. and Shenzhen Eastern Branch, Agricultural Bank of China
99.4	Comprehensive Credit Facility Agreement of Maximum Amount (English summary), dated June 13, 2012, between Shenzhen BAK Battery Co., Ltd and Shenzhen Branch, China Citic Bank Co., Ltd
99.5	Loan Agreement (English summary), dated June 20, 2012, between Shenzhen BAK Battery Co., Ltd. and Shenzhen Branch, China CITIC Bank Co., Ltd
99.6	Loan Agreement (English summary), dated June 29, 2012, between Shenzhen BAK Battery Co., Ltd. and Shenzhen Branch, China CITIC Bank Co., Ltd
99.7	Guaranty Contract of Maximum Amount (English summary), dated June 13, 2012, between BAK International Limited and Shenzhen Branch, China Citic Bank Co., Ltd
99.8	Guaranty Contract of Maximum Amount (English summary), dated June 13, 2012, between Xiangqian Li and Shenzhen Branch, China Citic Bank Co., Ltd
99.9	Comprehensive Credit Facility Agreement of Maximum Amount (English summary), dated May 29, 2012, between BAK International (Tianjin) Limited and Tianjin Branch, China Bohai Bank
99.10	Loan Agreement (English summary), dated May 29, 2012, between BAK International (Tianjin) Limited and Tianjin Branch, China Bohai Bank
99.11	Guaranty Contract of Maximum Amount (English summary), dated May 29, 2012, between Shenzhen BAK Battery Co., Ltd. and Tianjin Branch, China Bohai Bank
99.12	Comprehensive Credit Facility Agreement of Maximum Amount (English summary), dated June 5, 2012, between Shenzhen BAK Battery Co., Ltd and Shenzhen Longgang Branch, Shenzhen Development Bank Co., Ltd
99.13	Loan Agreement (English summary), dated July 6, 2012, between Shenzhen BAK Battery Co., Ltd. and Longgang Branch, Shenzhen Development Bank Co., Ltd

99.14	Loan Agreement (English summary), dated July 6, 2012, between Shenzhen BAK Battery Co., Ltd. and Longgang Branch, Shenzhen Development Bank Co., Ltd
99.15	Guaranty Contract of Maximum Amount (English summary), dated June 5, 2012, between BAK International Limited and Longgang Branch, Shenzhen Development Bank Co., Ltd
99.16	Guaranty Contract of Maximum Amount (English summary), dated June 5, 2012, between BAK International (Tianjin) Limited and Longgang Branch, Shenzhen Development Bank Co., Ltd
99.17	Guaranty Contract of Maximum Amount (English summary), dated June 5, 2012, between Xiangqian Li and Longgang Branch, Shenzhen Development Bank Co., Ltd
99.18	Mortgage Contract of Maximum Amount (English summary), dated June 5, 2012, between Shenzhen BAK Battery, Co., Ltd and Longgang Branch, Shenzhen Development Bank Co., Ltd

Exhibit No.	Description
99.19	Mortgage Contract of Maximum Amount (English summary), dated June 5, 2012, between Shenzhen BAK Battery, Co., Ltd and Longgang Branch, Shenzhen Development Bank Co., Ltd
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