CHINA BAK BATTERY INC
Form 10-Q
May 20, 2015

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: **March 31, 2015**

[   ] 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, Meigui Street
Huayuankou Economic Zone
Dalian City, Liaoning Province, China, 116422
(Address of principal executive offices, Zip Code)

(86)411-3918-5985
(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 [ ]
Non-accelerated filer [ ] Smaller reporting company [X]
(Do not check if a 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 May 18, 2015 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	**12,619,597**

Quarterly Report on Form 10-Q
Period Ended March 31, 2015

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA BAK BATTERY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2015 AND 2014

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China BAK Battery, Inc. and Subsidiaries
Condensed consolidated balance sheets
As of September 30, 2014 and March 31, 2015
(In US$)

	Note	*September 30, 2014*	*March 31, 2015* (Unaudited)
Assets			
Current assets			
Cash and cash equivalents		$ 991,519	$ 495,258
Trade accounts receivable, net	2	1,013,641	5,208,097
Inventories	3	2,648,098	1,140,509
Prepayments and other receivables	4	589,864	2,968,431
Receivable from former subsidiaries, net	5	7,261,089	161,277
Prepaid land use rights, current portion	8	183,048	180,123
Total current assets		12,687,259	10,153,695
Property, plant and equipment, net	6	124,255	116,458
Construction in progress	7	22,187,315	28,280,577
Prepaid land use rights, non-current	8	8,969,352	8,767,063
Total assets		$ 43,968,181	$ 47,317,793
Liabilities			
Current liabilities			
Short-term bank loans	9	$ 4,887,426	$ 4,838,319
Other short-term loans	10	5,552,117	1,335,173
Accounts payable		-	129,687
Trade payable to a former subsidiary	5	-	1,532,542
Accrued expenses and other payables	11	13,427,130	12,120,671
Deferred government grants, current	12	24,437,131	186,074
Deferred tax liabilities, current	13	-	267,450
Total current liabilities		48,303,804	20,409,916
Deferred government grants, non-current	12	-	7,256,874
Deferred tax liabilities, non-current	13	-	5,528,503
Total liabilities		48,303,804	33,195,293
Commitments and contingencies	17		
Shareholders (deficit) equity			
Common stock $0.001 par value; 20,000,000 authorized; 12,763,803 issued as of September 30, 2014 and March 31, 2015; 12,619,597 outstanding as of September 30, 2014 and March 31, 2015		12,763	12,763
Donated shares		14,101,689	14,101,689
Additional paid-in capital		127,438,362	127,438,362
Accumulated deficit		(141,796,196)	(123,340,308)

Accumulated other comprehensive income		(25,631)		(23,396)
		(269,013)		18,189,110
Less: Treasury shares		(4,066,610)		(4,066,610)
Total shareholders (deficit) equity		(4,335,623)		14,122,500
Total liabilities and shareholders (deficit) equity	$	43,968,181	$	47,317,793

See accompanying notes to the condensed consolidated financial statements.

China BAK Battery, Inc. and Subsidiaries
Condensed consolidated statements of operations and comprehensive (loss) income
For the three and six months ended March 31, 2014 and 2015
(Unaudited)
(In US$ except for number of shares and per share data)

	Note	*Three months ended March 31,* 2014	*Three months ended March 31,* 2015	*Six months ended March 31,* 2014	*Six months ended March 31,* 2015
Net revenues		$ 32,838,758	$ 3,066,307	$ 74,044,404	$ 6,145,414
Cost of revenues		(30,322,624)	(2,717,082)	(68,882,194)	(5,388,990)
Gross profit		2,516,134	349,225	5,162,210	756,424
Operating expenses:					
Research and development expenses		(1,227,421)	(53,912)	(2,511,867)	(105,946)
Sales and marketing expenses		(1,244,052)	(19,035)	(2,697,016)	(38,383)
General and administrative expenses		(3,786,061)	(538,113)	(7,992,240)	(1,020,476)
(Provision for) recovery of doubtful accounts		(188,118)	-	1,368,804	-
Total operating expenses		(6,445,652)	(611,060)	(11,832,319)	(1,164,805)
Operating loss		(3,929,518)	(261,835)	(6,670,109)	(408,381)
Finance costs, net		(6,698,839)	16,029	(10,591,916)	15,970
Government grant income (expense)		19,447	(164,909)	52,119	23,215,355
Other income (expenses)		208,043	(85,041)	687,661	(85,041)
(Loss) profit before income tax and discontinued operations		(10,400,867)	(495,756)	(16,522,245)	22,737,903
Income tax credit (expenses)	13	-	41,532	(16,474)	(5,803,534)
(Loss) profit before discontinued operations, net of tax		(10,400,867)	(454,224)	(16,538,719)	16,934,369
Income from discontinued operations, net of tax		1,136,082	1,521,519	1,991,892	1,521,519
Net (loss) profit		(9,264,785)	1,067,295	(14,546,827)	18,455,888
Other comprehensive income					
- Foreign currency translation adjustment		1,411,825	139,907	1,284,802	2,235
Comprehensive income (loss)		$ (7,852,960)	$ 1,207,202	$ (13,262,025)	$ 18,458,123
(Loss) earnings per share Basic and diluted	15				
- From continuing operations		$ (0.82)	$ (0.04)	$ (1.30)	$ 1.33
- From discontinued operations		0.09	0.12	0.16	0.12
		$ (0.73)	$ 0.08	$ (1.14)	$ 1.45

Weighted average number of shares of common stock:				
- Basic	12,709,597	12,719,597	12,707,015	12,719,597
- Diluted	12,709,597	12,719,597	12,707,015	12,719,597

See accompanying notes to the condensed consolidated financial statements.

China BAK Battery, Inc. and Subsidiaries
Condensed consolidated statements of changes in shareholders equity
For the six months ended March 31, 2014 and 2015
(Unaudited)
(In US$ except for number of shares)

	Common stock issued Number of shares	Amount	Donated shares	Additional paid-in capital	Statutory reserves	Accumulated deficit	Accumulated other comprehensive income	Treas Number of shares
Balance as of October 1, 2013	**12,763,803**	**$ 12,763**	**$ 14,101,689**	**$ 127,349,617**	**$ 7,786,157**	**$ (226,366,718)**	**$ 37,910,937**	**(144,206**
Net loss	-	-	-	-	-	(14,546,827)	-	-
Share-based compensation for employee stock awards	-	-	-	73,082	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	1,284,802	-
Balance as of March 31, 2014	**12,763,803**	**$ 12,763**	**$ 14,101,689**	**$ 127,422,699**	**$ 7,786,157**	**$ (240,913,545)**	**$ 39,195,739**	**(144,206**
Balance as of October 1, 2014	**12,763,803**	**$ 12,763**	**$ 14,101,689**	**$ 127,438,362**	**$ -**	**$ (141,796,196)**	**$ (25,631)**	**(144,206**
Net profit	-	-	-	-	-	18,455,888	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	2,235	-
Balance as of March 31, 2015	**12,763,803**	**$ 12,763**	**$ 14,101,689**	**$ 127,438,362**	**$ -**	**$ (123,340,308)**	**$ (23,396)**	**(144,206**

See accompanying notes to the condensed consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Condensed consolidated statements of cash flows
For the six months ended March 31, 2014 and 2015
(Unaudited)
(In US$)

	Six months ended March 31,	
	2014	*2015*
Cash flows from operating activities		
Net (loss) profit	$ (14,546,827)	$ 18,455,888
Income from discontinued operations, net of tax	(1,991,892)	(1,521,519)
Adjustments to reconcile net (loss) profit to net cash used in operating activities:		
Depreciation and amortization	5,016,504	126,662
Recovery of doubtful debts	(1,368,804)	-
Write-down of inventories	5,647,009	-
Share-based compensation	73,082	-
Deferred revenue	(173,976)	-
Deferred government grants	-	(23,215,355)
Deferred tax liabilities	-	5,803,534
Exchange (gain) loss	(76,548)	49,194
Changes in operating assets and liabilities:		
Trade accounts receivable	4,334,461	(4,561,645)
Inventories	8,412,875	2,110,717
Prepayments and other receivables	1,119,354	(211,287)
Accounts payable	(27,079,773)	129,857
Accrued expenses and other payable	14,311,002	7,658
Trade payable to a former subsidiary	-	1,588,655
Net cash used in continuing operations	(6,323,533)	(1,237,641)
Net cash provided by discontinued operations	3,098,268	-
Net cash used in operating activities	(3,225,265)	(1,237,641)
Cash flows from investing activities		
Increase in pledged deposits	(3,990,958)	-
Deferred government grants	-	7,452,684
Purchases of property, plant and equipment and construction in progress	(4,596,489)	(4,246,276)
Purchases of intangible assets	(15,939)	-
Repayment from advance to unrelated third parties	(3,458,425)	-
Net cash (used in) provided by continuing operations	(12,061,811)	3,206,408
Net cash (used in) provided by discontinued operations	(3,242,552)	1,360,031
Net cash (used in) provided by investing activities	(15,304,363)	4,566,439
Cash flows from financing activities		
Proceeds from borrowings	91,146,968	-
Repayment of borrowings	(176,578,201)	-
Loans from related parties	-	1,226,999
Repayment to related parties	-	(869,238)
Borrowings from unrelated parties	114,178,847	555,520
Repayment to unrelated parties	(15,715,450)	(4,728,377)
Net cash provided by (used in) financing activities	13,032,164	(3,815,096)
Effect of exchange rate changes on cash and cash equivalents	(52,215)	(9,963)

Net decrease in cash and cash equivalents on cash and cash equivalents		**(5,549,679)**		**(496,261)**
Cash and cash equivalents at the beginning of period		**13,998,626**		**991,519**
Cash and cash equivalents at the end of period	**$**	**8,448,947**	**$**	**495,258**
Supplemental disclosure of cash flow information				
Non-cash transactions				
Purchase of inventories offset against receivables from former subsidiaries	$	**-**	$	618,689
Purchase of property, plant and equipment (inclusive of VAT) offset against receivables from former subsidiaries	$	-	$	6,577,177
Removal expenditures offset against government grants	$	-	$	1,007,887
Trade accounts receivables offset against advance from a related party	$	-	$	351,046
Cash paid during the period for:				
Income taxes	$	-	$	-
Interest, net of amounts capitalized	$	10,811,323	$	-

See accompanying notes to the condensed consolidated financial statements.

China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
For the three and six months ended March 31, 2014 and 2015
(In US$ except for number of shares)
(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") high power rechargeable batteries. Prior to the disposal of BAK International Limited (BAK International) and its subsidiaries (see below), the batteries produced by the Company were for use in cellular telephones, as well as various other portable electronic applications, including high-power handsets telephones, laptop computers, power tools, digital cameras, video camcorders, MP3 players, electric bicycles, hybrid/electric vehicles, and general industrial applications. After the disposal of BAK International and its subsidiaries on June 30, 2014, the Company will focus on the manufacture, commercialization and distribution of high power lithium ion rechargeable batteries for use in cordless power tools, light electric vehicles, hybrid electric vehicles, electric cars, electric busses, uninterruptable power supplies and other high power 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

On November 6, 2004, BAK International, a non-operating holding company that had substantially the same shareholders as Shenzhen BAK Battery Co., Ltd (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. 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. 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.

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 1,720,087 shares of common stock for gross proceeds of $17,000,000. In conjunction with this financing, Mr. Xiangqian Li, the Chairman and Chief Executive Officer of the Company (Mr. Li), agreed to place 435,910 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 $12,000,000, and the remaining 50% was 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

$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 435,910 shares would be released to Mr. 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. 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.

China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
For the three and six months ended March 31, 2014 and 2015
(In US$ except for number of shares)
(Unaudited)

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

Basis of Presentation and Organization (continued)

While the 217,955 escrow shares relating to the 2005 performance threshold were previously released to Mr. Li, Mr. 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 217,955 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 $7,955,358 respectively, as set out in the consolidated statements of changes in shareholders equity.

In November 2007, Mr. Li delivered the 217,955 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. Li regarding the shares, and Mr. 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 entered into settlement agreements (the 2008 Settlement Agreements) with certain investors in the January 2005 private placement. Since the other investors have never submitted any claims regarding this matter, the Company did not reach any settlement with them.

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. 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 March 31, 2015 amounted to 73,749 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.

Pursuant to the Li Settlement Agreement, the 2008 Settlement Agreements and upon the release of the 217,955 escrow shares relating to the fiscal year 2006 performance threshold to the relevant investors, neither Mr. Li or the Company have any obligations to the investors who participated in the Company s January 2005 private placement relating to the escrow shares.

As of March 31, 2015, the Company had not received any claim from the other investors who have not been covered by the 2008 Settlement Agreements in the January 2005 private placement.

As the Company has transferred the 217,955 shares related to the 2006 performance threshold to the relevant investors in fiscal year 2007 and we also have transferred 73,749 shares relating to the 2005 performance threshold to the investors who had entered the 2008 Settlement Agreements with us in fiscal year 2008, pursuant to Li Settlement Agreement and 2008 Settlement Agreements , neither Mr. Li nor the Company had any remaining obligations to those related investors who participated in the Company s January 2005 private placement relating to the escrow shares.

China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
For the three and six months ended March 31, 2014 and 2015
(In US$ except for number of shares)
(Unaudited)

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

On December 27, 2013, Dalian BAK Power Battery Co., Ltd (Dalian BAK Power) was established as a wholly owned subsidiary of China BAK Asia Holding Limited (BAK Asia) with a registered capital of $30,000,000. Pursuant to Dalian BAK Power s article of association and relevant PRC regulations, BAK Asia was required to contribute $6,000,000 to Dalian BAK Power as capital (representing 20% of Dalian BAK Power s registered capital) on or before December 27, 2015. Up to the date of this report, the Company has contributed $5,000,000 to Dalian BAK Power through an injection of a series of patents.

The Company s condensed consolidated financial statements have been prepared under US GAAP.

These condensed consolidated financial statements are unaudited. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these condensed consolidated financial statements, which are of a normal and recurring nature, have been included. The results reported in the condensed consolidated financial statements for any interim periods are not necessarily indicative of the results that may be reported for the entire year. The following (a) condensed consolidated balance sheet as of September 30, 2014, which was derived from the Company s audited financial statements, and (b) the unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to those rules and regulations, though the Company believes that the disclosures made are adequate to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying footnotes of the Company for the year ended September 30, 2014.

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 liability established in the PRC or Hong Kong. The accompanying condensed 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 equity interest of BAK International and its wholly owned subsidiaries, namely Shenzhen BAK, BAK Battery (Shenzhen) Co., Ltd. (BAK Battery), BAK International (Tianjin) Ltd. (BAK Tianjin), Tianjin Chenhao Technological Development Limited (a subsidiary of BAK Tianjin established on May 8, 2014, Tianjin Chenhao), BAK Battery Canada Ltd. (BAK Canada), BAK Europe GmbH (BAK Europe) and BAK Telecom India Private Limited (BAK India) (collectively the Disposal Group) was disposed of effective on June 30, 2014 as a result of the foreclosure by Mr. Jinghui Wang (Mr. Wang), an unrelated third party, after Shenzhen BAK failed to repay the loans to Mr. Wang on March 31, 2014. The consolidated financial statements were consolidated up to the effective date of disposal.

After the disposal of BAK International Limited and its subsidiaries effective on June 30, 2014, and as of September 30, 2014 and March 31, 2015, the Company s subsidiaries consisted of: i) China BAK Asia Holdings Limited (BAK Asia), a wholly owned limited liability company incorporated in Hong Kong on July 9, 2013; ii) Dalian BAK Trading Co., Ltd. (Dalian BAK Trading), a wholly owned limited company established on August 14, 2013 in the PRC; and iii) Dalian BAK Power Battery Co., Ltd. (Dalian BAK Power), a wholly owned limited liability company established on December 27, 2013 in the PRC.

The Company continued its business and continued to generate revenues from sale of batteries via subcontracting the production to BAK Tianjin, a former subsidiary before the completion of construction and operation of its facility in Dalian. During the three months and six months ended March 31, 2015, BAK Tianjin is the major supplier of the Company and the Company does not have any significant benefits or liability from the operating results of BAK Tianjin except the normal risk with any major supplier.

Pursuant to a memorandum of understanding with the buyer of the Company s former subsidiaries dated August 20, 2014, Mr. Xiangqian Li remains as a director of BAK International, Shenzhen BAK, BAK Battery and BAK Battery until Shenzhen BAK s full settlement of its bank loans of $63.1 million expiring on various dates through March 2015. During this period, Mr. Li should not participate in any operational and managerial decision making of these entities.

China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
For the three and six months ended March 31, 2014 and 2015
(In US$ except for number of shares)
(Unaudited)

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

Basis of Presentation and Organization (continued)

The Company had a working capital deficiency, accumulated deficit from recurring net losses incurred for prior years and short-term debt obligations as of September 30, 2014 and March 31, 2015. These factors raise substantial doubts about the Company s ability to continue as a going concern.

The Company obtained a short term bank loan of $4.8 million (RMB30 million) from Bank of Dandong for the period from August 19, 2014 to August 18, 2015. The short term loan is bearing fixed interest at 7.8% per annum and was guaranteed by Shenzhen BAK and Mr. Li. The Company expects to renew the bank loan in August 2015 upon maturity, and plans to raise further financing from local banks to meet its daily cash demands. However, there can be no assurance that the Company will be successful in obtaining this financing. The Company believes that with the significant reduction of liabilities and disposal of traditionally low margin battery business after the foreclosure of BAK International Limited, it can continue as a going concern and return to profitability.

The accompanying condensed 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 condensed 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.

Discontinued operations

The Company had also been engaged in property leasing and management of its Research and Development Centre in Shenzhen since its completion in July 2013. Following the disposal of BAK International and in subsidiaries on June 30, 2014, the Company no longer engaged in property leasing and management. Thus, this business is now accounted for as discontinued operations in the accompanying consolidated financial statements for all periods presented. Accordingly, revenues and expenses and cash flows related to the property leasing and management business have been appropriately reclassified in the accompanying consolidated financial statements as discontinued operations for all periods presented.

The following table presents the components of discontinued operations in relation to the property leasing and management business reported in the condensed consolidated statement of operations and comprehensive loss for the three and six months ended March 31, 2014 and 2015:

	Three months ended March 31,		*Six months ended March 31,*	
	2014	*2015*	*2014*	*2015*
Net revenues	$ 1,444,596	$ -	$ 2,609,427	$ -
Cost of revenues	(308,514)	-	(617,535)	-
Recovery of doubtful accounts (note 5)	-	1,521,519	-	1,521,519
Income from discontinued operations, net of tax	$ 1,136,082	$ 1,521,519	$ 1,991,892	$ 1,521,519

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

Recently Issued Accounting Standards

In April 2014, the FASB issued ASU 2014-08 Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity , which changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal that represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Entities may early adopt the guidance for new disposals. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" which clarifies and improves the principles for recognizing revenue and develops a common revenue standard for United States generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRS) that among other things, improves comparability of revenue recognition practices and provides more useful information to users of financial statements through improved disclosure requirements. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. In April 2015, the FASB proposed a one-year delay in the effective date and companies will be allowed to early adopt as of the original effective date. The Company is currently reviewing the effect of ASU 2014-09 on its revenue recognition.

In June 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718)" which provides explicit guidance on the treatment of awards with performance targets that could be achieved after the requisite service period. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going concern (Subtopic 205-40) which provides guidance to an organization s management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. This guidance in ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

In November 2014, FASB issued Accounting Standards Update No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force).The amendments permit the use of the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate, or OIS) as a benchmark interest rate for hedge accounting purposes. Public business entities are required to implement the new requirements in fiscal years (and interim periods within those fiscal years) beginning after December 15, 2015. All other types of entities are required to implement the new requirements in fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016. The Company does not expect the adoption of ASU 2014-16 to have material impact on its consolidated financial statement.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis , which provides guidance for reporting entities that are required to evaluate whether they should consolidate certain legal entities. In accordance with ASU 2015-02, all legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company s consolidated financial statements upon adoption.

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2. Trade Accounts Receivable, net

Trade accounts receivable as of September 30, 2014 and March 31, 2015 consisted of the following:

	September 30, 2014	*March 31, 2015*
Trace accounts receivable	$ 1,013,641	$ 5,183,905
Less: Allowance for doubtful accounts	-	-
	1,013,641	5,183,905
Bills receivable	-	24,192
	$ 1,013,641	$ 5,208,097

3. Inventories

Inventories as of September 30, 2014 and March 31, 2015 consisted of the following:

	September 30, 2014	*March 31, 2015*
Raw materials	$ 9,187	$ 15,408
Finished goods	2,638,911	1,125,101
	$ 2,648,098	$ 1,140,509

During the three months ended March 31, 2014 and 2015, write-down of obsolete inventories to lower of cost or market of $1,008,589 and nil, respectively, were charged to cost of revenues.

During the six months ended March 31, 2014 and 2015, write-down of obsolete inventories to lower of cost or market of $5,647,009 and nil, respectively, were charged to cost of revenues.

4. Prepayments and Other Receivables

Prepayments and other receivables as of September 30, 2014 and March 31, 2015 consisted of the following:

	September 30, 2014	*March 31, 2015*
Value added tax recoverable	$ 570,577	$ 2,555,578
Staff advances	5,028	15,086
Prepaid operating expenses	2,750	389,511
Others	11,509	8,256
	$ 589,864	$ 2,968,431

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5. Receivables from Former Subsidiaries and Trade Payable to a Former Subsidiary

Receivable from former subsidiaries as of September 30, 2014 and March 31, 2015 consisted of the following:

	September 30, 2014	*March 31, 2015*
Shenzhen BAK	$ 1,856,356	$ 479,450
BAK Tianjin	7,261,089	-
	9,117,445	479,450
Less: Allowance for doubtful accounts	(1,856,356)	(318,173)
	$ 7,261,089	$ 161,277

Upon disposal of the Disposal Group in June 2014, the Disposal Group owed the Company a sum of $17.8 million. Management of the Company evaluated the collectability of the remaining amount and determined that $1.8 million should be impaired and offset against the gain on disposal of subsidiaries from discontinued operations for the year ended September 30, 2014. During the three and six months ended March 31, 2015, the Company determined that $1.5 million was recoverable. The recovery was treated as an adjustment to the gain on disposal of subsidiaries from discontinued operations for the three and six months ended March 31, 2015.

These amounts are interest-free, unsecured and repayable on demand.

Trade payable to a former subsidiary as of September 30, 2014 and March 31, 2015 consisted of the following:

	September 30, 2014	*March 31, 2015*
BAK Tianjin	$ -	$ 1,532,542

6. Property, Plant and Equipment, net

Property, plant and equipment as of September 30, 2014 and March 31, 2015 consisted of the following:

	September 30, 2014	*March 31, 2015*
Machinery and equipment	$ -	$ 5,383
Office equipment	19,999	21,108
Motor vehicles	118,821	117,627
	138,820	144,118
Accumulated depreciation	(14,565)	(27,660)
Carrying amount	$ 124,255	$ 116,458

Depreciation expense for the three and six months ended March 31, 2014 and 2015 is included in the condensed consolidated statements of operations as follows:

	Three months ended March 31,		*Six months ended March 31,*	
	2014	*2015*	*2014*	*2015*
Cost of revenues	$ 1,716,070	$ -	$ 3,290,721	$ -
Research and development expenses	132,043	-	247,554	-
Sales and marketing expenses	28,061	-	56,837	-

General and administrative expenses		840,414		6,750		1,690,180		13,259
	$	2,716,588	$	6,750	$	5,285,292	$	13,259

During the course of the Company s strategic review of its operations, the Company assessed the recoverability of the carrying value of the Company s property, plant and equipment. The impairment charge, if any, represented the excess of carrying amounts of the Company s property, plant and equipment over the estimated discounted cash flows expected to be generated by the Company s production facilities. The Company believes that there was no impairment of its property, plant and equipment for the three and six months ended March 31, 2014 and 2015.

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7. Construction in Progress

Construction in progress as of September 30, 2014 and March 31, 2015 consisted of the following:

	September 30, 2014	*March 31, 2015*
Construction in progress	$ 21,760,746	$ 28,241,323
Prepayment for acquisition of property, plant and equipment	426,569	39,254
Carrying amount	$ 22,187,315	$ 28,280,577

Construction in progress as of September 30, 2014 and March 31, 2015 was comprised of capital expenditures for the construction of the facilities and production lines of Dalian BAK Power.

For the three months ended March 31, 2014 and 2015, the Company capitalized interest of $85,420 and $93,780 respectively to the cost of construction in progress.

For the six months ended March 31, 2014 and 2015, the Company capitalized interest of $318,500 and $191,041 respectively to the cost of construction in progress.

8. Prepaid Land Use Rights, net

Prepaid land use rights as of September 30, 2014 and March 31, 2015 consisted of the followings:

	September 30, 2014	*March 31, 2015*
Prepaid land use rights	$ 9,152,400	$ 9,060,441
Accumulated amortization	-	(113,255)
	$ 9,152,400	$ 8,947,186
Less: Classified as current assets	(183,048)	(180,123)
	$ 8,969,352	$ 8,767,063

Pursuant to a land use rights acquisition agreement dated August 10, 2014, the Company acquired the rights to use a piece of land with an area of 153,832 m^2 in Dalian Economic Zone for 50 years up to August 9, 2064, at a total consideration of $8,558,987 (RMB53.1 million). Other incidental costs incurred totaled $501,454(RMB3.1 million).

Amortization expenses of the prepaid land use rights were $133,285 and $44,875 for the three months ended March 31, 2014 and 2015 and $268,008 and $113,404 for the six months ended March 31, 2014 and 2015 respectively.

9. Short-term Bank Loans

As of the September 30, 2014 and March 31, 2015, the Company borrowed $4,887,426 and $4,838,319 (RMB30 million) from Bank of Dandong for a period from August 19, 2014 to August 18, 2015, bearing interest at 7.8% per annum. The loan was guaranteed by Mr. Xiangqian Li, the Company s CEO and Shenzhen BAK, a former subsidiary of the Company.

During the three months ended March 31, 2014 and 2015, interest expense of $1,845,480 and $93,780, respectively, was incurred on the Company's bank borrowings.

During the six months ended March 31, 2014 and 2015, interest expense of $4,591,849 and $191,041, respectively, was incurred on the Company's bank borrowings.

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10. Other Short-term Loans

Other short-term loans as of September 30, 2014 and March 31, 2015 consisted of the followings:

	Note		*September 30, 2014*		*March 31, 2015*
Advance from a related company					
- Tianjin BAK New Energy Research Institute Co. Ltd ("Tianjin BAK New Energy")	(a)	$	651,657	$	651,357
Advances from unrelated third parties	(b)				
- Mr Longqien Peng		$	162,915	$	185,470
- Mr Fangliang Shen			-		177,405
- Shenzhen Peilite Technological Co., Ltd			-		140,311
- Mr Mingzhe Li			382,848		32,255
- Others			-		148,375
- Mr Shengdan Qiu			4,354,697		-
			4,900,460		683,816
		$	5,552,117	$	1,335,173

(a) The Company received an advance from Tianjin BAK New Energy, a related company under the common control of Mr. Xiangqian Li, the Company s CEO, which was unsecured, non-interest bearing and repayable on demand. For the three and six months ended March 31, 2015, the Company generated revenue of $300,432 from Tianjin BAK New Energy, and the related trade receivable was offset against the advance from Tianjin BAK New Energy as of March 31, 2015.

(b) Advances from unrelated third parties were unsecured, non-interest bearing and repayable on demand. During the three months ended March 31, 2014 and 2015, interest expense of $4,994,006 and nil, respectively, was incurred on the Company s other short-term loans.

During the six months ended March 31, 2014 and 2015, interest expense of $6,537,974 and nil, respectively, was incurred on the Company s other short-term loans.

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11. Accrued Expenses and Other Payables

Accrued expenses and other payables as of September 30, 2014 and March 31, 2015 consisted of the followings:

	September 30, 2014	*March 31, 2015*
Construction costs payable	$ 10,935,000	$ 9,656,093
Liquidated damages (note)	1,210,119	1,210,119
Equipment purchase payable	536,239	399,910
Customer deposits	143,524	121,451
Accrued staff costs	65,978	183,110
Other payables and accruals	536,270	549,988
	$ 13,427,130	$ 12,120,671

Note: On August 15, 2006, the SEC declared effective a post-effective amendment that the Company had filed on August 4, 2006, terminating the effectiveness of a resale registration statement on Form SB-2 that had been filed pursuant to a registration rights agreement with certain shareholders to register the resale of shares held by those shareholders. The Company subsequently filed Form S-1 for these shareholders. On December 8, 2006, the Company filed its Annual Report on Form 10-K for the year ended September 30, 2006 (the 2006 Form 10-K). After the filing of the 2006 Form 10-K, the Company s previously filed registration statement on Form S-1 was no longer available for resale by the selling shareholders whose shares were included in such Form S-1. Under the registration rights agreement, those selling shareholders became eligible for liquidated damages from the Company relating to the above two events totaling approximately $1,051,000. As of September 30, 2014 and March 31, 2015, no liquidated damages relating to both events have been paid.

On November 9, 2007, the Company completed a private placement for the gross proceeds to the Company of $13,650,000 by selling 3,500,000 shares of common stock at the price of $3.90 per share. Roth Capital Partners, LLC acted as the Company s exclusive financial advisor and placement agent in connection with the private placement and received a cash fee of $819,000. The Company may have become liable for liquidated damages to certain shareholders whose shares were included in a resale registration statement on Form S-3 that the Company filed pursuant to a registration rights agreement that the Company entered into with such shareholders in November 2007. Under the registration rights agreement, among other things, if a registration statement filed pursuant thereto was not declared effective by the SEC by the 100th calendar day after the closing of the Company s private placement on November 9, 2007, or the Effectiveness Deadline , then the Company would be liable to pay partial liquidated damages to each such investor of (a) 1.5% of the aggregate purchase price paid by such investor for the shares it purchased on the one month anniversary of the Effectiveness Deadline; (b) an additional 1.5% of the aggregate purchase price paid by such investor every thirtieth day thereafter (pro rated for periods totaling less than thirty days) until the earliest of the effectiveness of the registration statement, the ten-month anniversary of the Effectiveness Deadline and the time that the Company is no longer required to keep such resale registration statement effective because either such shareholders have sold all of their shares or such shareholders may sell their shares pursuant to Rule 144 without volume limitations; and (c) 0.5% of the aggregate purchase price paid by such investor for the shares it purchased in our November 2007 private placement on each of the following dates: the ten-month anniversary of the Effectiveness Deadline and every thirtieth day thereafter (prorated for periods totaling less than thirty days), until the earlier of the effectiveness of the registration statement and the time that the Company no longer is required to keep such resale registration statement effective because either such shareholders have sold all of their shares or such shareholders may sell their shares pursuant to Rule 144 without volume limitations. Such liquidated damages would bear interest at the rate of 1% per month (prorated for partial months) until paid in full.

On December 21, 2007, pursuant to the registration rights agreement, the Company filed a registration statement on Form S-3, which was declared effective by the SEC on May 7, 2008. As a result, the Company estimated liquidated damages amounting to $561,174 for the November 2007 registration rights agreement. As of September 30, 2014 and March 31, 2015, the Company had settled the liquidated damages with all the investors and the remaining provision of approximately $159,000 was included in other payables and accruals.

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12. Deferred Government Grants

Deferred government grants as of September 30, 2014 and March 31, 2015 consist of the following:

		September 30, 2014		*March 31, 2015*
Total government grants	$	24,437,131	$	7,442,948
Less: Current portion		(24,437,131)		(186,074)
Non-current portion	$	-	$	7,256,874

In September 2013, the Management Committee of Dalian Economic Zone Management Committee (the Management Committee) provided a subsidy of RMB150 million to finance the costs incurred in moving our facilities to Dalian, including the loss of sales while the new facilities were being constructed. During the three and six months ended March 31, 2015, the Company recognized nil and $23,215,355 as income after offset of the related removal expenditures of $1,007,887.

On October 17, 2014, the Company received a subsidy of $7,442,948 (RMB46,150,000) pursuant to an agreement with the Management Committee dated July 2, 2013 equivalent to the costs of land use rights and to be used to construct the new manufacturing site over the land use rights. The subsidy will be amortized on a straight-line basis over the estimated useful lives of the depreciable facilities constructed thereon. The Company expects that the facilities will be completed and put into operation in the third quarter of fiscal 2015.

13. Income Taxes, Deferred Tax Assets and Deferred Tax Liabilities

(a) Income taxes in the condensed consolidated statements of comprehensive loss(income)

The Company s provision for income taxes consisted of:

	Three months ended March 31,				*Six months ended March 31,*			
		2014		*2015*		*2014*		*2015*
PRC income tax:								
Current	$	-	$	-	$	16,474	$	-
Deferred		-		(41,532)		-		5,803,534
	$	-	$	(41,532)	$	16,474	$	5,803,534

United States Tax

China BAK is subject to a statutory tax rate of 35% under United States of America tax law. No provision for income taxes in the United States or elsewhere has been made as China BAK had no taxable income for the three and six months ended March 31, 2014 and 2015.

Hong Kong Tax

BAK Asia and BAK International are subject to Hong Kong profits tax rate of 16.5% and did not have any assessable profits arising in or derived from Hong Kong for the three and six months ended March 31, 2014 and 2015 and accordingly no provision for Hong Kong profits tax was made in these periods.

PRC Tax

The Company s subsidiaries in China are subject to enterprise income tax at 25% for the three and six months ended March 31, 2014 and 2015.

Canada States Tax

BAK Canada was subject to statutory tax rate of 38% under Canada tax law. No provision for income taxes in Canada has been made as BAK Canada had no taxable income for the three and six months ended March 31, 2014.

German States Tax

BAK Europe was subject to a 25% statutory tax rate under Germany tax law. No provision for income taxes in Germany has been made as BAK Europe had no taxable income for the three and six months ended March 31, 2014.

India Tax

BAK India was subject to a 30% statutory tax rate under India tax law. No provision for income taxes in India has been made as BAK India had no taxable income for the three and six months ended March 31, 2014.

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13. Income Taxes, Deferred Tax Assets and Deferred Tax Liabilities (continued)

A reconciliation of the provision for income taxes determined at the statutory income tax rate to the Company's income taxes is as follows:

	Three months ended March 31, 2014	2015	*Six months ended March 31,* 2014	2015
(Loss) earnings before income taxes - continuing operations	$ (10,400,867)	$ (495,756)	$ (16,522,245)	$ 22,737,903
United States federal corporate income tax rate	35%	35%	35%	35%
Income tax credit computed at United States statutory corporate income tax rate	(3,640,303)	(173,515)	(5,782,786)	7,958,266
Reconciling items:				
Valuation allowance on deferred tax assets	2,547,778	46,337	3,706,454	47,012
Rate differential for PRC earnings	1,019,457	47,349	1,601,597	(2,292,612)
Non-deductible expenses	62,897	33,088	465,630	91,172
Share based payments	10,171	-	25,579	-
Others	-	5,209	-	(304)
Provision for income taxes	**$ -**	**$ (41,532)**	**$ 16,474**	**$ 5,803,534**

(b) Deferred tax assets and deferred tax liabilities

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of September 30, 2014 and March 31, 2015 are presented below:

	September 30, 2014	March 31, 2015
Deferred tax assets		
Net operating loss carried forward	$ 12,534,160	$ 12,664,881
Valuation allowance	(12,534,160)	(12,664,881)
Long-term deferred tax assets	$ -	$ -
Deferred tax liabilities		
Government grants	$ -	$ 5,795,953
Less: current portion	-	(267,450)
Non-current portion	$ -	$ 5,528,503

As of September 30, 2014 and March 31, 2015, the Company s U.S. entity had net operating loss carry forwards of $35,318,443, available to reduce future taxable income which will expire in various years through 2034 and the Company s PRC subsidiaries had net operating loss carry forwards of $690,821 and $1,213,706 which will expire in various years through 2010. Management believes it is more likely than not that the Company will not realize these potential tax benefits as these operations will not generate any operating profits in the foreseeable future. As a result, a valuation allowance was provided against the full amount of the potential tax benefits.

The Company did not provide for deferred income taxes and foreign withholding taxes on the cumulative undistributed earnings of foreign subsidiaries as of September 30, 2014 and March 31, 2015 of approximately of nil and $16.8 million, respectively. The cumulative undistributed earnings of foreign subsidiaries were included in accumulated deficit and will continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for U.S. deferred taxes or applicable withholding taxes, related to future repatriation of these earnings, nor is it practicable to estimate the amount of income taxes that would have to be provided if management concluded that such earnings will be remitted in the future.

As of September 30, 2014 and March 31, 2015, the Company had no material unrecognized tax benefits which would favorably affect the effective income tax rates in future periods and does not believe that there will be any significant increases or decreases of unrecognized tax benefits within the next twelve months. No interest or penalties relating to income tax matters have been imposed on the Company during the three and six months ended March 31, 2014 and 2015, and no provision for interest and penalties is deemed necessary as of March 31, 2015 and September 30, 2014.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or its withholding agent. The statute of limitations extends to five years under special circumstances, which are not clearly defined. In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion.

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14. 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 800,000 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 1,600,000.

On June 22, 2009, the Compensation Committee of the Company s Board of Directors recommended and approved the grant of options to purchase 385,640 shares of the Company s common stock to certain key employees, officers and consultants with an exercise price of $14.05 per share and a contractual life of 7 years. 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 period from September 30, 2014 to March 31, 2015 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, 2014	4,200	$ 14.05	1.7 years	
Exercised	-			
Cancelled	-			
Forfeited	-			
Outstanding as of March 31, 2015	4,200	$ 14.05	1.2 years	$ -
Exercisable as of March 31, 2015	4,200	$ 14.05	1.2 years	$ -

[1] The intrinsic values of option at March 31, 2015 was zero since the per share market value of common stock of $3.52 was lower than the exercise price of the option of $14.05 per share.

The weighted average grant-date fair value of options granted on June 22, 2009 was $12.30 per share. The Company recorded non-cash share-based compensation expense of $21,174 and nil for the three months ended March 31, 2014 and 2015, and $54,106 and nil for the six months ended March 31, 2014 and 2015, respectively.

As of March 31, 2015, there were no unrecognized compensation costs related to the above non-vested share options.

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14. 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 Compensation Committee of the Company s Board of Directors recommended and approved the grant of 100,000 restricted shares to the Chief Executive Officer, Mr. Xiangqian Li with a fair value of $14.05 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 $7,887 and nil for the three months ended March 31, 2014 and 2015, and $18,976 and nil for the six months ended March 31, 2014 and 2015, respectively, in respect of the restricted shares granted on June 22, 2009, which was allocated to general and administrative expenses.

As of March 31, 2015, there was no unrecognized stock-based compensation associated with these restricted shares granted to Mr. Xiangqian Li.

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 three and six months ended March 31, 2014 and 2015.

15. (Loss) Earnings Per Share

The following is the calculation of (loss) earnings per share:

	Three months ended March 31,		*Six months ended March 31,*	
	2014	*2015*	*2014*	*2015*
Net (loss) profit from continuing operations	$ (10,400,867)	$ (454,224)	$ (16,538,719)	$ 16,934,369
Income from discontinued operations	1,136,082	1,521,519	1,991,892	1,521,519
Net (loss) profit	$ (9,264,785)	$ 1,067,295	$ (14,546,827)	$ 18,455,888
Weighted average shares used in basic and diluted computation (note)	12,709,597	12,719,597	12,707,015	12,719,597
(Loss) earnings per share Basic and diluted				
From continuing operations	$ (0.82)	$ (0.04)	$ (1.30)	$ 1.33
From discontinued operations	0.09	0.12	0.16	0.12
	$ (0.73)	$ 0.08	$ (1.14)	$ 1.45

Note: Including 90,000 and 100,000 vested restricted shares not yet issued to Mr. Xiangqian Li as of March 31, 2014 and 2015, respectively.

For the three and six months ended March 31, 2015, the outstanding 4,200 stock options were anti-dilutive and excluded from diluted (loss) earnings per share.

For the three and six months ended March 31, 2014, the outstanding 24,600 stock options and 10,000 restricted shares were anti-dilutive and excluded from diluted (loss) earnings per share.

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16. Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurement and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy, which requires classification based on observable and unobservable inputs when measuring fair value. Certain current assets and current liabilities are financial instruments. Management believes their carrying amounts are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and, if applicable, their current interest rates are equivalent to interest rates currently available. The three levels of valuation hierarchy are defined as follows:

&#149 Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

&#149 Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

&#149 Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The carrying amounts of financial assets and liabilities, such as cash and cash equivalents, trade accounts receivable, other receivables, receivables from and trade payable to former subsidiaries, accounts payable, other short-term loans and other payables approximate their fair values because of the short maturity of these instruments or the rate of interest of these instruments approximate the market rate of interest.

17. Commitments and Contingencies

(i) Capital Commitments

As of September 30, 2014 and March 31, 2015, the Company had the following contracted capital commitments:

		September 30, 2014		*March 31, 2015*
For construction of buildings	$	4,348,995	$	2,743,350
For purchases of equipment		1,073,596		328,919
Capital injection to Dalian BAK Power and Dalian BAK Trading Note		25,400,000		25,400,000
	$	30,822,591	$	28,472,269

Note: Initially, BAK Asia was required to pay the remaining capital within two years, of the date of issuance of the subsidiary s business license according to PRC registration capital management rules. According to the revised PRC Companies Law which became effective on March 1, 2014, the time requirement of the registered capital contribution has been abolished. As such, BAK Asia has its own discretion to consider the timing of the registered capital contributions.

(ii) Litigation

From time to time, the Company 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 proceeding set forth below, the Company is currently not aware of any such legal proceedings or claims that the Company believe will have an adverse effect on our business, financial condition or operating results:

An individual named Steven R. Ruth filed suit against China BAK Battery, Inc. in United States District Court for the Western District of Texas in 2013 alleging breach of contract. The Company did not receive notice of this lawsuit and the plaintiff sought a default judgment, which the court granted in January 2014. Accordingly, the court entered judgment in favor of Mr. Ruth in the amount of $553,774 inclusive of costs and attorneys fees (the First Judgment)

Subsequent to the entry of the First Judgment, Mr. Ruth has made efforts to have the judgment enforced in Canada. On September 19, 2014, Mr. Ruth also filed a second complaint in the United States District Court for the Western District of Texas. On November 12, 2014, a second default judgment was entered against the Company in the amount of $553,774 for the First Judgment plus an additional $7,550 in attorneys fees. The second judgment is inclusive of the amounts ordered in the First Judgment. BAK International thereafter agreed to indemnify the Company from any expenses, losses and damages that were incurred and will be incurred by the Company due to the lawsuit filed by Mr. Ruth.

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18. Concentrations and Credit Risk

(a) Concentrations

The Company had two and three customers that individually comprised 10% or more of net revenue for the three months ended March 31, 2014 and 2015, respectively, as follows:

	Three months ended March 31,				
	2014			*2015*	
Jiangsu Huatiantong Technology Limited.	$ 3,477,100	10.58%	$	*	*
Dongguan Yulong Telecom Technology Co., Ltd.	3,720,890	11.33%		*	*
Sichuan Pisen Electronics Co., Ltd.	*	*		536,857	17.50%
Shenzhen Dibike Electronics Technology Co., Ltd	*	*		819,523	26.72%
Guangdong Pisen Electronics Co., Ltd.	*	*		810,096	26.41%

* Comprised less than 10% of net revenue for the respective period.

The Company had two and three customers that individually comprised 10% or more of net revenue for the six months ended March 31, 2014 and 2015, respectively, as follows:

	Six months ended March 31,				
	2014			*2015*	
Tinno Mobile Techonlogy Company Limited.	$ 9,491,721	12.81%	$	*	*
Jiangsu Huatiantong Technology Limited.	8,281,999	11.18%		*	*
Sichuan Pisen Electronics Co., Ltd.	*	*		1,976,898	32.17%
Shenzhen Dibike Electronics Technology Co., Ltd	*	*		819,523	13.34%
Guangdong Pisen Electronics Co., Ltd.	*	*		2,189,722	35.63%

* Comprised less than 10% of net revenue for the respective period.

The Company had one and three customers that individually comprised 10% or more of accounts receivable as of September 30, 2014 and March 31, 2015, respectively, as follows:

	September 30, 2014		*March 31, 2015*	
Sichuan Pisen Electronics Co., Ltd.	*	*	1,764,881	33.88%
Guangdong Pisen Electronics Co., Ltd.	569,444	56.17%	1,555,615	29.86%
Shenzhen Dibike Electronics Technology Co., Ltd	*	*	957,590	18.38%

After the disposal of BAK International (Note 1) and prior to the completion of the new manufacturing site in Dalian, the Company generated its revenues from sale of batteries via subcontracting the production to BAK Tianjin, a former subsidiary. For the three and six months ended March 31, 2015, the Company purchased inventories of $1.9 million and $3.6 million from BAK Tianjin.

For the three and six months ended March 31, 2015, the Company generated revenue of

$43,208 and $64,650 from Shenzhen BAK, respectively; and
$58,488 and $58,488 from BAK Tianjin, respectively.

(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, 2014 and March 31, 2015, substantially all of the Company s cash and cash equivalents were held by major financial institutions located in the PRC, which management believes are of high credit quality.

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19. Segment Information

The Company used to engage in one business segment, 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. 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. Starting from the three months ended December 31, 2013 and until June 30, 2014, the Company was also engaged in the business segment of property lease and management (see Note 1). Net revenues from continuing operations for the three and six months ended March 31, 2014 and 2015 were as follows:

Net revenues by product:

	Three months ended March 31,		*Six months ended March 31,*	
	2014	*2015*	*2014*	*2015*
Prismatic cells				
Aluminum-case cells	$ 8,000,449	$ -	$ 21,124,890	$ -
Battery packs	15,591,339	-	32,749,590	-
Cylindrical cells	486,376	-	5,936,609	-
Lithium polymer cells	5,582,513	-	7,182,357	-
High-power lithium battery cells	3,178,081	3,066,307	7,050,958	6,145,414
	$ 32,838,758	$ 3,066,307	$ 74,044,404	$ 6,145,414

Net revenues by geographic area:

	Three months ended March 31,		*Six months ended March 31,*	
	2014	*2015*	*2014*	*2015*
PRC Mainland	$ 27,688,156	$ 3,066,307	$ 61,212,919	$ 6,145,414
PRC Taiwan	327,020	-	2,307,949	-
Hong Kong, China	1,407,001	-	3,906,355	-
India	899,638	-	1,155,819	-
Others	2,516,943	-	5,461,362	-
	$ 32,838,758	$ 3,066,307	$ 74,044,404	$ 6,145,414

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

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 United States generally accepted accounting principles, or 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, 2014, 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 Asia are to our Hong Kong subsidiary, China BAK Asia Holdings Limited;
- Dalian BAK Trading are to our PRC subsidiary, Dalian BAK Trading Co., Ltd.;
- Dalian BAK Power are to our PRC subsidiary, Dalian BAK Power Battery Co., Ltd;
- China and PRC are to the 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

We completed a reverse stock split on October 26, 2012, pursuant to which every five shares of our common stock were combined into one share of common stock. All references in this report to share and per share data have been adjusted, including historical data which have been retroactively adjusted, to give effect to the reverse stock split unless specified otherwise.

Overview of Our Business

Upon the commencement of commercial operations of our Dalian manufacturing facilities, which is expected to be in the second quarter of calendar 2015, we will be engaged in the business of developing, manufacturing and selling new energy high power lithium batteries, which are mainly used in the following applications:

- Electric vehicles (EV), such as electric cars, electric buses, hybrid electric cars and buses;
- Light electric vehicles (LEV), such as electric bicycles, electric motors, sight-seeing cars; and
- Electric tools, energy storage, uninterruptible power supply, and other high power applications.

The construction of our Dalian facilities is nearly completed and we commenced the trial production in April 2015. We received most of the operating assets, including customers, employees, patents and technologies of our former subsidiary, BAK International (Tianjin) Ltd. (BAK Tianjin). Also, the assets were acquired in exchange for a reduction in receivables from former subsidiaries. We have outsourced and will continue to outsource our production to BAK Tianjin or other manufacturers until our Dalian manufacturing facility begins its commercial operations in the second quarter of calendar 2015. For the three and six months ended March 31, 2015, Dalian BAK Power purchased batteries of approximately of $1.9 million and $3.6 million, respectively from BAK Tianjin.

We have experienced net losses from continuing operations during the past two fiscal years. We generated revenues of $3.0 million and $32.8 million for the three months ended March 31, 2015 and 2014, respectively. We incurred a net loss of $9.3 million during the three months ended March 31, 2014. During the three months ended March 31, 2015, we recorded a net profit of $1.1 million, including a reversal of an impairment loss on receivables from former subsidiaries of $1.5 million. As of March 31, 2015, we had an accumulated deficit of $123.3 million and net assets of $14.1 million. We had a working capital deficiency and accumulated deficit from recurring net losses in prior years and short-term debt obligations maturing in less than one year as of March 31, 2015.

In October 2014, we received from Dalian government a subsidy of RMB46.2 million (approximately $7.4 million) equivalent to the costs of land use rights to be used to construct the new manufacturing site over the land use rights. We also obtained a short term bank loan of RMB30 million (approximately $4.8 million) with a one-year term from Bank of Dandong in August 2014. The short term bank loan is bearing a fixed interest rate at 7.8% per annum and is guaranteed by Mr. Xiangqian Li, our CEO, and Shenzhen BAK Battery Co., Ltd., our former subsidiary (Shenzhen BAK). We plan to renew this loan upon maturity, and plan to raise additional funds in the future to meet our daily cash demands. In the meanwhile, due to the growing environmental pollution problem, the Chinese government is currently providing vigorous support to the new energy facilities and vehicles. It is expected that we will be able to secure more potential orders from the new energy market, especially from the electric car market. We believe with the significant reduction of liabilities and disposal of the traditionally low margin battery business, supported by the future market demand in high power lithium ion products, we can continue as a going concern and return to profitability.

Second Quarter Financial Performance Highlights

The following are some financial highlights for the second quarter of our fiscal year ended March 31, 2015:

- ***Net revenues***: Net revenues decreased by $29.8 million, or 90.7%, to $3.0 million for the three months ended March 31, 2015, from $32.8 million for the same period in 2014.
- ***Gross profit***: Gross profit was $0.3 million for the three months ended March 31, 2015, a decrease of $2.2 million from $2.5 million for the same period in 2014.
- ***Operating loss***: Operating loss was $0.3 million for the three months ended March 31, 2015, reflecting an improvement of $3.7 million from of $3.9 million for the same period in 2014.
- ***Loss from continuing operations:*** Loss from continuing operations was $0.5 million for the three months ended March 31, 2015, representing an improvement of $9.9 million from a net loss from continuing operations of $10.4 million for the same period in 2014.
- ***Income from discontinued operations:*** Income from our discontinued operations was $1.5 million for the three months ended March 31, 2015, representing an improvement of $0.4 million as compared to income from discontinued operations of $1.1 million for the same period in 2014.
- ***Diluted earnings (loss) per share***: Diluted earnings per share was $0.08 for the three months ended March 31, 2015, as compared to diluted loss per share of $0.73 for the same period in 2014.

Financial Statement Presentation

Net revenues. Our net revenues from our continuing operations of sale of batteries 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. A provision for sales returns is 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 return data.

Revenue from our discontinued operations represents rental income for commercial property leases and management and is recognized on a straight-line basis over the respective lease terms.

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.

Impairment charge on property, plant and equipment. Impairment charge consists 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 represents the government subsidies received as part of our income unless the subsidies received are earmarked to compensate the specific expenses, which have been accounted for by offsetting the specific expenses, such as research and development expense, interest expenses and removal costs. Unearned government subsidies received are deferred for recognition until the criteria for such recognition could be met. Grants applicable to land are amortized over the life of the depreciable facilities constructed on it. For research and development expenses, we match and offset the government grants with the expenses of the research and development activities as specified in the grant approval document in the corresponding period when such expenses are incurred.

Finance costs, net. Finance costs consist primarily of interest income and interest on bank loans and other short term loans, net of capitalized interest.

Income tax expenses. All of our subsidiaries and our former subsidiaries were subject to enterprise income tax at 25% for the three and six months ended March 31, 2015 and 2014. Our PRC subsidiaries did not have any assessable income and did not incur any enterprise income tax for the three and six months ended March 31, 2015 and 2014. Our former Canadian, German, Indian, and Hong Kong subsidiaries-BAK Canada, BAK Europe, BAK India and BAK International were subject to profits tax in their respective countries at rates of 38%, 25%, 30%, and 16.5%, respectively. However, because they did not have any assessable income derived from or arising in those countries, they had not paid any such tax for the three and six months ended March 31, 2014.

Dalian BAK Trading and Dalian BAK Power are subject to an income tax rate of 25%. Neither company has incurred any enterprise income tax since their establishment.

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% 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 exported products and deposited in bonded warehouses are exempt from import VAT

Results of Operations

Comparison of Three Months Ended March 31, 2015 and 2014

The following table sets forth key components of our results of operations for the periods indicated.

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

	Three months ended March 31, **2014**	**2015**	**Change** $	%
Net revenues	$ 32,838	$ 3,066	$ (29,772)	(90.7)
Cost of revenues	(30,323)	(2,717)	27,606	(91.0)
Gross profit	2,515	349	(2,166)	(86.1)
Operating expenses:				
Research and development expenses	1,227	54	(1,173)	(95.6)
Sales and marketing expenses	1,244	19	(1,225)	(98.5)
General and administrative expenses	3,974	538	(3,436)	(86.5)
Total operating expenses	6,445	611	(5,834)	(90.5)
Operating loss	(3,930)	(262)	3,668	93.3
Finance costs, net	(6,699)	16	6,715	100.2
Government grant income	19	(165)	(184)	(968.4)
Other income (expense)	208	(85)	(293)	(140.9)
Loss before income tax and discontinued operations	(10,402)	(496)	9,906	95.2
Provision for income tax	-	42	42	100%
Loss profit before discontinued operations, net of tax	(10,402)	(454)	9,948	95.6
Income from discontinued operations, net of tax	1,137	1,522	385	33.9
Net (loss) profit	$ (9,265)	$ 1,068	$ 10,333	111.5

Net revenues. Net revenues were $3.0 million for the three months ended March 31, 2015, as compared to $32.8 million for the same period in 2014, representing a decrease of $29.8 million, or 90.7%. The decrease was primarily attributable to the disposal of BAK International and its subsidiaries that manufactured prismatic, cylindrical and lithium polymer cells. After June 30, 2014, we generated revenue from sales of high-power lithium battery cells mainly manufactured by BAK Tianjin under our outsourcing arrangements with them.

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 March 31, **2014**	**2015**
Prismatic cells		
Aluminum-case cells	$ 8,000	$ -
Battery packs	15,591	-
Cylindrical cells	487	-
Lithium polymer cells	5,582	-
High-power lithium battery cells	3,178	3,066
Total	**$** 32,838	$ 3,066

The following table sets forth the breakdown of our net revenues from reconditioned and normal products for the three months ended March 31, 2014. We did not generate any sales from reconditioned products during the three months ended March 31, 2015.

	Three Months Ended March 31, 2014		
	Reconditioned sales	Normal sales	Total sales
Prismatic cells			
Aluminum-case cells	$ 6,464	$ 1,536	$ 8,000
Battery packs	53	15,538	15,591
Cylindrical cells	-	487	487
Lithium polymer cells	5,401	181	5,582
High-power lithium battery cells	-	3,178	3,178
Total	$ 11,918	$ 20,920	$ 32,838

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The following table sets forth certain information related to high-power lithium battery cells for the three months ended March 31, 2014 and 2015, respectively.

	Three months ended March 31,				Change			
		2014		2015		$		%
Net revenues	$	3,178	$	3,066	$	(112)		(3.5)
Cost of sales		(3,091)		(2,717)		374		(12.1)
Gross profit	$	87	$	349	$	262		301.1

Sales from high-power lithium battery cells for the three months ended March 31, 2015 decreased by $0.11 million, or 3.5%, from $3.18 million for the quarter ended March 31, 2014 to $3.07 million in the same period of 2015. The decrease was mainly attributable to a decrease of average selling price by $0.05 or 3.9% as compared with same period in prior year as a result of a change of our product mix as we offered more products used for uninterruptable power supplies with a relatively lower selling unit price in 2015 than in 2014.

Cost of revenues. Cost of revenues decreased to $2.7 million for the three months ended March 31, 2015, as compared to $30.3 million for the same period in 2014, a decrease of $27.6 million, or 91.0%. Included in cost of revenues were write downs of obsolete inventories of $1.0 million for the three months ended March 31, 2014 and nil for the same period of 2015. We write down the inventory value whenever there is an indication that they are impaired. However, further write-downs may be necessary if market conditions continue to deteriorate. Also, as we disposed of the major subsidiaries which generated most of our sales in 2014, our sales revenue and cost of sales decreased substantially in the same period of fiscal 2015.

Gross profit. Gross profit for the three months ended March 31, 2015 was $0.3 million, or 11.4% of net revenues, as compared to a gross profit of $2.5 million, or 7.7% of net revenues, for the same period in 2014. Our improvement of gross profit was largely due to the fact that there was no write-down of inventory or reconditioned products being sold at a loss during the second quarter of fiscal 2015 as compared to the same period of fiscal 2014.

Research and development expenses. Research and development expenses decreased to $0.05 million for the three months ended March 31, 2015, as compared to $1.2 million for the same period in 2014, a decrease of $1.2 million, or 95.6%. This decrease was mainly because we only carried out quality control and did not incur any overseas sales or conduct any R&D projects after the disposal of BAK International. Therefore, no certification fees were incurred for overseas sales and no materials were consumed for R&D projects in fiscal year 2015.

Sales and marketing expenses. Sales and marketing expenses decreased to $0.02 million for the three months ended March 31, 2015, as compared to $1.2 million for the same period in 2014, a decrease of $1.2 million, or 98.5%, primarily due to our disposal of former subsidiaries which contributed most of our prior period expense. As a percentage of revenues, sales and marketing expenses have decreased to 0.6% for the three months ended March 31, 2015, from 3.8% for the same period in 2014, primarily because we did not expand our sales team before our commercial operations of the Dalian site.

General and administrative expenses. General and administrative expenses decreased to $0.5 million for the three months ended March 31, 2015, as compared to $3.8 million for the same period in 2014, a decrease of $3.4 million, or 86.5%. The decrease was mainly because of the reduction of headcount and operating expenses after the disposal of BAK International.

Operating loss. As a result of the above, our operating loss totaled $0.3 million for the three months ended March 31, 2015, as compared to $3.9 million for the same period in 2014, a decrease of $3.6 million, or 93.3%.

Finance costs, net. As we are in the process of constructing our Dalian site, interest expenses incurred on bank borrowings were capitalized as construction in progress during the quarter ended March 31, 2015. In the same period of the prior year, we incurred interest expense on our bank borrowings and loans from unrelated third parties.

Government grant (expense) income. Government grant expense was $0.2 million for the three months ended March 31, 2015, as compared to government income of $19,000 for the same period last year.

Income tax credit. Income tax credit was $42,000 for the three months ended March 31, 2015, as compared to nil for the same period in 2014.

Income from discontinued operations, net of tax. Income from discontinued operations, net of tax was $1.1 million for the three months ended March 31, 2014 as compared to $1.5 million for the same period in 2015. Income from discontinued operations in 2014 represents the income from the leasing and management of our Research and Development Centre in Shenzhen. Income from discontinued operations in 2015 represents an adjustment to the gain on disposal of subsidiaries from discontinued operations previously recorded in fiscal 2014. Upon disposal of BAK International and its subsidiaries (collectively the Disposal Group) in June 2014, the Disposal Group owed us a sum of $17.8 million. Our management evaluated the collectability of the remaining amount and determined that $1.8 million should be impaired and offset against the gain on disposal of subsidiaries from discontinued operations for the year ended September 30, 2014. In fiscal 2015, we determined that $1.5 million was recoverable. The recovery was treated as an adjustment to the gain on disposal of subsidiaries from discontinued operations in 2015.

Net profit (loss). As a result of the foregoing, we had a net profit of $1.1 million for the three months ended March 31, 2015, compared to a net loss of $9.3 million for the three months ended March 31, 2014.

Comparison of Six Months Ended March 31, 2015 and 2014

The following table sets forth key components of our results of operations for the periods indicated.

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

	Six months ended March 31, 2014	2015	Change $	%
Net revenues	$ 74,044	$ 6,145	$ (67,899)	(91.7)
Cost of revenues	(68,882)	(5,389)	63,493	(92.2)
Gross profit	5,162	756	(4,406)	(85.4)
Operating expenses:				
Research and development expenses	2,512	106	(2,406)	(95.8)
Sales and marketing expenses	2,697	38	(2,659)	(98.6)
General and administrative expenses	6,623	1,020	(5,603)	(84.6)
Total operating expenses	11,832	1,164	(10,668)	(90.2)
Operating loss	(6,670)	(408)	6,262	(93.9)
Finance costs, net	(10,592)	16	10,608	(100.2)
Government grant income	52	23,215	23,163	44,544.2
Other income	688	(85)	(773)	(112.4)
(Loss) profit before income tax and discontinued operations	(16,522)	22,738	39,260	(237.6)
Income tax expenses	(16)	(5,804)	(5,788)	36,175.0
(Loss) profit before discontinued operations, net of tax	(16,538)	16,934	33,472	202.4
Income from discontinued operations, net of tax	1,991	1,522	(469)	(23.6)
Net (loss) profit	$ (14,547)	$ 18,456	$ 33,003	(226.9)

Net revenues. Net revenues were $6.1 million for the six months ended March 31, 2015, as compared to $74.0 million for the same period in 2014, representing a decrease of $67.9 million, or 91.7%. The decrease was primarily attributable to the disposal of BAK International and its subsidiaries that manufactured prismatic, cylindrical and lithium polymer cells. After June 30, 2014, we generated revenue from sales of high-power lithium battery cells mainly manufactured by BAK Tianjin under our outsourcing arrangements with them.

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

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

	Six Months Ended December 31, 2014	2015
Prismatic cells		
Aluminum-case cells	$ 21,125	$ -
Battery packs	32,749	-
Cylindrical cells	5,937	-
Lithium polymer cells	7,182	-
High-power lithium battery cells	7,051	6,145
Total	$ 74,044	**$** 6,145

The following table sets forth the breakdown of our net revenues from reconditioned and normal products for the six months ended March 31, 2014. We did not generate any sales from reconditioned products during the six months ended March 31, 2015.

	Six Months Ended March 31, 2014		
	Reconditioned sales	Normal sales	Total sales
Prismatic cells			
Aluminum-case cells	$ 18,540	$ 2,585	$ 21,125
Battery packs	6,291	26,458	32,749
Cylindrical cells	-	5,937	5,937
Lithium polymer cells	6,266	916	7,182
High-power lithium battery cells	-	7,051	7,051
	$ 31,097	$ 42,947	$ 74,044

The following table sets forth certain information related to high-power lithium battery cells for the six months ended March 31, 2014 and 2015, respectively.

	Six months ended March 31,		Change	
	2014	2015	$	%
Net revenues	$ 7,051	$ 6,145	$ (906)	(12.8)
Cost of sales	(6,498)	(5,389)	1,109	(17.1)
Gross profit	$ 553	$ 756	$ 203	36.7

Sales from high-power lithium battery cells for the six months ended March 31, 2015 decreased by $0.91 million, or 12.8%, from $7.05 million for the six months ended March 31, 2014 to $6.15 million in the same period of 2015. The decrease was mainly attributable to a decrease of 16.8% in average selling price that outweighed an increase of 4.8% in sales volume. The decrease in average selling price and the increase in sales volume were mainly due to a change of our product mix from the sale of high-power lithium cells for light electric vehicles in 2014 to those used for uninterruptable power supplies with a relatively lower selling unit price in 2015.

Cost of revenues. Cost of revenues decreased to $5.4 million for the six months ended March 31, 2015, as compared to $68.9 million for the same period in 2014, a decrease of $63.5 million, or 92.2%. Included in cost of revenues were write downs of obsolete inventories of $5.6 million for the six months ended March 31, 2014 and nil for the same period of 2015. We write down the inventory value whenever there is an indication that they are impaired. However, further write-downs may be necessary if market conditions continue to deteriorate. Also, as we disposed of the major subsidiaries which generated most of our sales in 2014, our sales revenue and cost of sales decreased substantially in the same period of fiscal 2015.

Gross profit. Gross profit for the six months ended March 31, 2015 was $0.8 million, or 12.3% of net revenues, as compared to a gross profit of $5.2 million, or 7.0% of net revenues, for the same period in 2014. The improvement in our gross profit percentage was largely due to the fact that there was no write-down of inventory or reconditioned products being sold at a loss during the six months ended March 31, 2015 as compared to the same period of 2014.

Research and development expenses. Research and development expenses decreased to $0.1 million for the six months ended March 31, 2015, as compared to $2.5 million for the same period in 2014, a decrease of $2.4 million, or 95.8%. This decrease was mainly because we only carried out quality control and did not incur any overseas sales or conduct any R&D projects after the disposal of BAK International. Therefore, no certification fees were incurred for overseas sales and no materials were consumed for R&D projects in fiscal year 2015.

Sales and marketing expenses. Sales and marketing expenses decreased to $0.04 million for the six months ended March 31, 2015, as compared to $2.7 million for the same period in 2014, a decrease of $2.7 million, or 98.6%, primarily due to our disposal of former subsidiaries which contributed most of our prior period expense. As a percentage of revenues, sales and marketing expenses have decreased to 0.6% for the six months ended March 31, 2015, from 3.6% for the same period in 2014, primarily because we did not expand our sales team before our commercial operations of the Dalian site.

General and administrative expenses. General and administrative expenses decreased to $1.0 million for the six months ended March 31, 2015, as compared to $6.6 million for the same period in 2014, a decrease of $5.6 million, or 84.6%. The decrease was mainly because of the reduction of headcount and operating expenses after the disposal of BAK International.

Operating loss. As a result of the above, our operating loss totaled $0.4 million for the six months ended March 31, 2015, as compared to $6.7 million for the same period in 2014, a decrease of $6.3 million, or 93.8%

Finance costs, net. As we are in the process of constructing our Dalian site, interest expenses incurred on bank borrowings were capitalized as construction in progress during the quarter ended March 31, 2015. In the same period of the prior year, we incurred interest expense on our bank borrowings and loans from unrelated third parties.

Government grant income. Government grant income increased to $23.2 million for the six months ended March 31, 2015, as compared to $52,000 for the same period last year. This was mainly due to the recognition of the subsidy of $23.2 million from the Management Committee of Dalian Economic Zone granted to finance the projected operating loss incurred during the move and construction of our new facilities in Dalian.

Income tax expense. Income tax expense was $5.8 million for the six months ended March 31, 2015 due to the deferred tax impact of the government subsidies recognized, as compared to $16,000 income tax expense for the same period in 2014.

Income from discontinued operations, net of tax. Income from discontinued operations, net of tax represents the income from the leasing and management of our Research and Development Centre in Shenzhen. During the six months ended March 31, 2014, this leasing and management operation generated revenue of $2.6 million, and a profit of $2.0 million. Income from discontinued operations in 2015 represents an adjustment to the gain on disposal of subsidiaries from discontinued operations previously recorded in fiscal 2014. Upon disposal of BAK International and its subsidiaries (collectively the Disposal Group) in June 2014, the Disposal Group owed us a sum of $17.8 million. Our management evaluated the collectability of the remaining amount and determined that $1.8 million should be