

CHINA BAK BATTERY INC
Form 10-Q
May 16, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **March 31, 2016**

☐ 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

(State or other jurisdiction of
incorporation or organization)

88-0442833

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

BAK Industrial Park, Meigui Street
Huayuan kou Economic Zone
Dalian City, Liaoning Province,
China, 116422 People's Republic of China
(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 ☒ No ☐

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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 ☒ 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 ☒

(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 ☒

The number of shares outstanding of each of the issuer's classes of common stock, as of May 13, 2016 is as follows:

Class of Securities	Shares Outstanding
<u>Common Stock, \$0.001 par value</u>	17,287,994

CHINA BAK BATTERY, INC.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA BAK BATTERY, INC. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2015 AND 2016

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China BAK Battery, Inc. and Subsidiaries
Condensed consolidated balance sheets
As of September 30, 2015 and March 31, 2016
(In US\$)

	<i>Note</i>	<i>September 30, 2015</i>	<i>March 31, 2016 (Unaudited)</i>
Assets			
<i>Current assets</i>			
Cash and cash equivalents		\$ 6,762,745	\$ 1,594,897
Pledged deposits	2	1,519,601	2,014,963
Trade accounts and bills receivable, net	3	4,771,958	6,951,521
Inventories	4	3,057,575	4,559,740
Prepayments and other receivables	5	2,552,658	3,708,048
Receivables from former subsidiaries, net	6	686,514	-
Prepaid land use rights, current portion	9	176,764	174,343
Deferred tax assets, current portion	15	43,175	-
Total current assets		19,570,990	19,003,512
Property, plant and equipment, net	7	22,274,820	21,510,899
Construction in progress	8	13,039,373	18,751,356
Prepaid land use rights, non-current	9	8,455,231	8,252,213
Intangible assets, net	10	26,818	25,070
Deferred tax assets, non-current	15	-	-
Total assets		\$ 63,367,232	\$ 67,543,050
Liabilities			
<i>Current liabilities</i>			
Trade accounts and bills payable		\$ 4,910,717	\$ 12,797,858
Taxes payable		5,108,878	4,602,237
Short-term bank loans	11	12,585,740	12,896,137
Other short-term loans	12	184,755	726,676
Accrued expenses and other payables	13	11,569,981	10,629,490
Payables to former subsidiaries	6	-	812,370
Deferred government grants, current	14	181,510	179,023
Total current liabilities		34,541,581	42,643,791
Deferred government grants, non-current	14	7,014,114	6,828,501
Deferred tax liabilities, non-current	15	142,650	84,418
Total liabilities		41,698,345	49,556,710
Commitments and contingencies	19		
Shareholders' equity			
Common stock \$0.001 par value; 500,000,000 authorized ; 12,856,301 issued and 12,712,095 outstanding as of September 30, 2015; 17,337,200 issued and 17,192,994 outstanding as of March 31, 2016			
		12,856	17,337

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Donated shares	14,101,689	14,101,689
Additional paid-in capital	138,036,080	138,726,418
Statutory reserves	-	1,230,511
Accumulated deficit	(125,922,270)	(131,188,612)
Accumulated other comprehensive loss	(492,858)	(834,393)
	25,735,497	22,052,950
Less: Treasury shares	(4,066,610)	(4,066,610)
Total shareholders' equity	21,668,887	17,986,340
Total liabilities and shareholder's equity	\$ 63,367,232	\$ 67,543,050

See accompanying notes to the condensed consolidated financial statements.

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China BAK Battery, Inc. and Subsidiaries
Condensed consolidated statements of operations and comprehensive (loss) income
For the three and six months ended March 31, 2015 and 2016
(Unaudited)
(In US\$ except for number of shares)

	Note	Three months ended March 31,		Six months ended March 31,	
		2015	2016	2015	2016
Net revenues	21	\$ 3,066,307	\$ 3,198,913	\$ 6,145,414	\$ 8,699,502
Cost of revenues		(2,717,082)	(3,298,207)	(5,388,990)	(8,957,094)
Gross profit (loss)		349,225	(99,294)	756,424	(257,592)
Operating expenses:					
Research and development expenses		(53,912)	(360,540)	(105,946)	(1,108,077)
Sales and marketing expenses		(19,035)	(299,084)	(38,383)	(469,542)
General and administrative expenses		(538,113)	(1,171,573)	(1,020,476)	(2,201,284)
Total operating expenses		(611,060)	(1,831,197)	(1,164,805)	(3,778,903)
Operating loss		(261,835)	(1,930,491)	(408,381)	(4,036,495)
Finance income (cost), net		16,029	(37,192)	15,970	(35,186)
Government grant (expense) income	14	(164,909)	-	23,215,355	-
Other (expenses) income, net		(85,041)	7,284	(85,041)	50,676
(Loss) profit before income tax and discontinued operations		(495,756)	(1,960,399)	22,737,903	(4,021,005)
Income tax credit (expenses)	15	41,532	57,241	(5,803,534)	(14,826)
(Loss) profit before discontinued operations, net of tax		(454,224)	(1,903,158)	16,934,369	(4,035,831)
Income from discontinued operations, net of tax	6	1,521,519	-	1,521,519	-
Net profit (loss)		\$ 1,067,295	\$ (1,903,158)	\$ 18,455,888	\$ (4,035,831)
Other comprehensive profit (loss)					
Foreign currency translation adjustment		139,907	144,655	2,235	(341,535)
Comprehensive income (loss)		\$ 1,207,202	\$ (1,758,503)	\$ 18,458,123	\$ (4,377,366)
(Loss) earnings per share Basic and diluted	17				
From continuing operations		\$ (0.04)	\$ (0.11)	\$ 1.33	\$ (0.23)
From discontinued operations		0.12	-	0.12	-
		\$ 0.08	\$ (0.11)	\$ 1.45	\$ (0.23)
Weighted average number of shares of common stock:	17				
Basic and diluted		12,719,597	17,229,432	12,719,597	17,200,536

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, 2015 and 2016
(Unaudited)
(In US\$ except for number of shares)

	Common stock issued		Donated shares	Additional paid-in capital	Statutory reserves	Accumulated deficit	Accumulated other comprehensive income	Treasury Number of shares
	Number of shares	Amount						
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)
Balance as of October 1, 2015	12,856,301	\$ 12,856	\$ 14,101,689	\$ 138,036,080	\$ -	\$ (125,922,270)	\$ (492,858)	(144,206)
Net loss	-	-	-	-	-	(4,035,831)	-	-
Transfer to statutory reserves	-	-	-	-	1,230,511	(1,230,511)	-	-
Common stock issued to employee for stock award	104,168	104	-	(104)	-	-	-	-
Common stock issued to new investors	4,376,731	4,377	-	(4,377)	-	-	-	-
Share-based compensation for employee and director stock awards	-	-	-	694,819	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	(341,535)	-

**Balance as of
March 31,**

2016 **17,337,200 \$** **17,337 \$** **14,101,689 \$** **138,726,418 \$** **1,230,511 \$** **(131,188,612)\$** **(834,393)** **(144,206)**
Note

In accordance with the relevant regulations applicable in the PRC, subsidiaries established in the PRC are required to transfer a certain percentage of their statutory annual profits after tax (after offsetting any prior years' losses), if any, to the statutory reserve until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC subsidiaries. The amount of the transfer is subject to the approval of the board of directors of the respective PRC subsidiaries.

On December 31, 2015 the board of directors of Dalian BAK Power approved the transfer of \$1,230,511, representing 10% of Dalian BAK Power's profits after tax for the calendar year ended December 31, 2015, to the statutory reserve.

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, 2015 and 2016
(Unaudited)
(In US\$)

	Six months ended March 31,	
	2015	2016
Cash flows from operating activities		
Net profit (loss)	\$ 18,455,888	\$ (4,035,831)
Income from discontinued operations, net of tax	(1,521,519)	-
Adjustments to reconcile net profit (loss) to net cash used in operating activities:		
Depreciation and amortization	126,662	558,421
Provision for doubtful accounts	-	7,433
Write-down of inventories	-	239,035
Share-based compensation	-	694,819
Deferred government grants	(23,215,355)	-
Deferred tax liabilities	5,803,534	15,135
Exchange loss (gain)	49,194	(16,914)
Changes in operating assets and liabilities:		
Trade accounts receivable	(4,561,645)	(2,245,156)
Inventories	2,110,717	(1,778,125)
Prepayments and other receivables	(211,287)	(1,185,078)
Trade accounts and bills payable	129,857	7,928,834
Accrued expenses and other payables	7,658	383,912
Trade receivable from and payable to a former subsidiaries	1,588,655	1,475,040
Net cash (used in) provided by operating activities	(1,237,641)	2,041,525
Cash flows from investing activities		
Increase in pledged deposits	-	(514,522)
Deferred government grant	7,452,684	-
Purchases of property, plant and equipment and construction in progress	(4,246,276)	(7,624,827)
Net cash provided by (used in) continuing operations	3,206,408	(8,139,349)
Net cash provided by discontinued operations	1,360,031	-
Net cash provided by (used in) investing activities	4,566,439	(8,139,349)
Cash flows from financing activities		
Proceeds from bank borrowings	-	481,283
Borrowings from related party	1,226,999	-
Repayment to related party	(869,238)	-
Borrowings from unrelated parties	555,520	618,668
Repayment of borrowings from unrelated parties	(4,728,377)	(77,333)
Net cash (used in) provided by financing activities	(3,815,096)	1,022,618
Effect of exchange rate changes on cash and cash equivalents	(9,963)	(92,642)
Net decrease in cash and cash equivalents	(496,261)	(5,167,848)
Cash and cash equivalents at the beginning of period	991,519	6,762,745
Cash and cash equivalents at the end of period	\$ 495,258	\$ 1,594,897
Supplementary 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 receivable offset against advance from a related company	\$	351,046	\$	-
Cash paid during the period				
Income taxes	\$	-	\$	464,024
Interest, net of amounts capitalized	\$	-	\$	-

See accompanying notes to the condensed consolidated financial statements.

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China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
For the three and six months ended March 31, 2015 and 2016
(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 handset 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 focused 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 former Chairman and former Chief Executive Officer of the Company, 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. Xiangqian Li in the amount of 50% upon reaching the 2005 target and the remaining 50% upon reaching the 2006 target.

Under accounting principles generally accepted in the United States of America (US GAAP), escrow agreements such as the one established by Mr. Xiangqian Li generally constitute compensation if, following attainment of a performance threshold, shares are returned to a company officer. The Company determined that without consideration of the compensation charge, the performance thresholds for the year ended September 30, 2005 would be achieved. However, after consideration of a related compensation charge, the Company determined that such thresholds would not have been achieved. The Company also determined that, even without consideration of a compensation charge, the performance thresholds for the year ended September 30, 2006 would not be achieved.

China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
For the three and six months ended March 31, 2015 and 2016
(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. Xiangqian Li, Mr. Xiangqian Li executed a further undertaking on August 21, 2006 to return those shares to the escrow agent for the distribution to the relevant investors. However, such shares were not returned to the escrow agent, but, pursuant to a Delivery of Make Good Shares, Settlement and Release Agreement between the Company, BAK International and Mr. Xiangqian 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. Xiangqian 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. Xiangqian 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. Xiangqian Li regarding the shares, and Mr. Xiangqian Li released all claims and causes of action against the Company and BAK International regarding the shares. Under the terms of the Li Settlement Agreement, the Company commenced negotiations with the investors who participated in the Company's January 2005 private placement in order to achieve a complete settlement of BAK International's obligations (and the Company's obligations to the extent it has any) under the applicable agreements with such investors.

Beginning on March 13, 2008, the Company 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. Xiangqian Li, as well as all claims, including claims for liquidated damages relating to registration rights granted in connection with the January 2005 private placement. Under the 2008 Settlement

Agreement, the Company has made settlement payments to each of the settling investors of the number of shares of the Company's common stock equivalent to 50% of the number of the escrow shares related to the 2005 performance threshold these investors had claimed; aggregate settlement payments as of March 31, 2016 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.

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China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
For the three and six months ended March 31, 2015 and 2016
(In US\$ except for number of shares)
(Unaudited)

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

Basis of Presentation and Organization (continued)

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. Xiangqian 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, 2016, 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 the Company also has 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. Xiangqian 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.

On August 14, 2013, Dalian BAK Trading Co., Ltd (Dalian BAK Trading) was established as a wholly owned subsidiary of China BAK Asia Holding Limited (BAK Asia) with a registered capital of \$500,000 (Note 19(i)). Pursuant to Dalian BAK Trading's articles of association and relevant PRC regulations, BAK Asia was required to contribute the capital to Dalian BAK Trading on or before August 14, 2015. Up to the date of this report, the Company has contributed \$100,000 to Dalian BAK Trading in cash.

On December 27, 2013, Dalian BAK Power Battery Co., Ltd (Dalian BAK Power) was established as a wholly owned subsidiary of BAK Asia with a registered capital of \$30,000,000 (Note 19(i)). Pursuant to Dalian BAK Power's articles of association and relevant PRC regulations, BAK Asia was required to contribute the capital to Dalian BAK Power on or before December 27, 2015. Up to the date of this report, the Company has contributed \$14,846,344 to Dalian BAK Power through injection of a series of patents and cash of \$9,846,344.

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, 2015, 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, 2015.

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.

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China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
For the three and six months ended March 31, 2015 and 2016
(In US\$ except for number of shares)
(Unaudited)

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

Basis of Presentation and Organization (continued)

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 date of disposal.

After the disposal of BAK International Limited and its subsidiaries effective on June 30, 2014, and as of September 30, 2015 and March 31, 2016, 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, a wholly owned limited company established on August 14, 2013 in the PRC; and iii) 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 in July 2015. BAK Tianjin is a 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 Tianjin until Shenzhen BAK's full settlement of its bank loans of \$58.6 million expiring on various dates through March 2015. Shenzhen BAK renewed the banking loans with Agricultural Bank of China of \$65.0 million (RMB420 million) expiring on April 14, 2016. Shenzhen BAK repaid bank loans of \$14.4 million (RMB93 million) in April 2016 and had outstanding bank loans of \$50.6 million (RMB326 million) expiring on various dates through February 2017. On May 20, 2015, BAK Asia New Energy Holding Limited (formerly known as Asia Zhi Li New Energy Holding Limited), the shareholder of BAK International Limited agreed to indemnify Mr. Li from any loss as a result of the default of repayment of bank loans by Shenzhen BAK.

On and effective March 1, 2016, Mr. Xiangqian Li resigned as Chairman, director, Chief Executive Officer, President and Secretary of the Company. On the same date, the Board of Directors of the Company appointed Mr. Yunfei Li as Chairman, Chief Executive Officer, President and Secretary of the Company. On March 4, 2016, Mr. Xiangqian Li transferred 3,000,000 shares to Mr. Yunfei Li for a price of \$2.4 per share. After the share transfer, Mr. Yunfei Li held 3,000,000 shares or 17.3% and Mr. Xiangqian held 760,557 shares or 4.4% of the Company's outstanding stock, respectively. Mr. Xiangqian Li remains as a director of BAK Asia, Dalian BAK Power and Dalian BAK Trading.

The Company had a working capital deficiency, accumulated deficit from recurring net losses incurred for prior years and current period and short-term debt obligations as of September 30, 2015 and March 31, 2016. These factors raise substantial doubts about the Company's ability to continue as a going concern.

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

Basis of Presentation and Organization (continued)

In June and July 2015, the Company received advances of approximately \$9.8 million from the following potential investors, who are independent from the Company and independent from each other:

Mr. Shibin Mao	\$	2,227,148
Mr. Dawei Li		1,499,967
Mr. Ping Shen		1,499,967
Mr. Shangdong Liu		1,599,968
Ms. Lijuan Wang		1,500,000
Mr. Jiping Zhou		1,520,594
	\$	9,847,644

Pursuant to the loan agreements with the investors executed on September 29, 2015, the loans were interest bearing at 20% per annum and secured by all the assets of Dalian BAK Power in China. Advances of \$9,466,985 were repayable by September 30, 2015 and an advance of \$380,659 was repayable by December 7, 2015.

On September 29, 2015, the Company entered into a Debt Conversion Agreement with these investors. Pursuant to the terms of the Debt Conversion Agreement, each of the creditors agreed to convert existing loan principal of \$9,847,644 into an aggregate 4,376,731 shares of common stock of the Company (the Shares) at a conversion price of \$2.25 per share. The closing price as of September 29, 2015 was \$2.22, which was slightly lower than the conversion price of \$2.25. There was no expense associated with the conversion.

Pursuant to supplemental agreements also executed on September 29, 2015, if the loans were converted into equity before October 30, 2015, the investors will waive their entitlements to all the interest accruing on the loans.

Upon receipt of the Shares on October 16, 2015, the creditors released the Company from all claims, demands and other obligations relating to the Debts. The amount of \$9,847,644 was classified as shares to be issued under additional paid-in capital as of September 30, 2015.

As such, no interest was recognized by the Company on the advances from investors pursuant to the supplemental agreements with investors and the Debt Conversion Agreement.

On June 22, 2015, Dalian BAK Power entered into a banking facility letter with Bank of Dandong to provide a maximum loan amount of \$18.6 million (RMB120 million) to June 22, 2016. The banking facilities include \$12.4 million (RMB80 million) of short term loans and a \$6.2 million (RMB40 million) bank acceptance. The banking facilities were guaranteed by Shenzhen BAK, Mr. Xiangqian Li, and his wife, Ms. Xiaoqiu Yu. The facilities were also secured by Dalian BAK Power's buildings, construction in progress, prepaid land use rights and machineries and pledged deposits. On June 25, 2015, the Company borrowed \$7.8 million (RMB50 million) from Bank of Dandong for a period from June 25, 2015 to June 22, 2016, bearing a fixed interest rate of 7.84% per annum. The Company borrowed another loan of \$4.6 million (RMB30 million) with a fixed interest rate of 7.84% per annum for the period from August 18, 2015 to June 10, 2016. In September 2015, the Company applied to Bank of Dandong to revise the bank acceptance facilities of \$6.2 million (RMB40 million) into a \$3.1 million (RMB20 million) bank acceptance and \$1.9 million (RMB12 million) letter of credit. During the first quarter of fiscal 2016, the Company applied to Bank of

Dandong to revise the bank acceptance into a \$4.0 million (RMB26 million) bank acceptance and letter of credit of \$1.3 million (RMB8.4 million). In the second quarter of fiscal 2016, the Company borrowed a series of short term loans totaled of \$0.5 million arising from the matured letters of credit from Bank of Dandong under the credit facilities. As of March 31, 2016, the Company had unutilized committed banking facilities of \$0.8 million. The Company is currently expanding its product lines and manufacturing capacity in its Dalian plant, which requires more funding to finance the expansion. The Company plans to raise additional funds through bank borrowings and equity financing in the future to meet its daily cash demands if required.

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

Basis of Presentation and Organization (continued)

However, there can be no assurance that the Company will be successful in obtaining further 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.

Recently Issued Accounting Standards

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 August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendment in this ASU defers the effective date of ASU No. 2014-09 for all entities for one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods with that reporting period. The Company is currently reviewing the effect of this guidance 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.

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

Recently Issued Accounting Standards (Continued)

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 a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02 "Consolidation (Topic 810): Amendments to the Consolidation Analysis." ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of the adoption of ASU 2015-02 on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in the financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. The guidance is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. The guidance will be applied retrospectively to each period presented. The adoption of this standard update is not expected to have any impact on the Company's financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory, which requires an entity to measure inventory within the scope at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The effective date for the standard is for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of ASU 2015-11 to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments eliminate the requirement to retrospectively account for those adjustments. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company does not expect the adoption of ASU 2015-16 to have a material impact on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. To simplify the presentation of deferred income taxes, the amendments in this update require that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in ASU 2015-17 are effective for public business entities for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The amendments may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

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China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
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(Unaudited)

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

Recently Issued Accounting Standards (Continued)

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The amendments in ASU 2016-01 are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

On March 17, 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers - Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which provides guidance on assessing whether an entity is a principal or an agent in a revenue transaction and whether an entity reports revenue on a gross or net basis. On April 14, 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing, which provides guidance on identifying performance obligations and accounting for licenses of intellectual property. The effective date and transition requirements for ASU No. 2016-08 and ASU No. 2016-10 are the same as the effective date and transition requirements of ASU No. 2014-09. The Company is evaluating the effect that ASU No. 2016-08 and ASU No. 2016-10 will have on the Company's consolidated financial statements and related disclosures.

On March 15, 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. The amendments in ASU 2016-07 are effective for public companies for fiscal years beginning after December 31, 2017 including interim periods therein. Early adoption is permitted. The new standard should be applied prospectively for investments that qualify for the equity method of accounting after the effective date. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which includes amendments to accounting for income taxes at settlement, forfeitures, and net settlements

to cover withholding taxes. The amendments in ASU 2016-09 are effective for public companies for fiscal years beginning after December 31, 2016, and interim periods within those annual periods. Early adoption is permitted but requires all elements of the amendments to be adopted at once rather than individually. The Company is evaluating the effect that ASU No. 2016-09 will have on the Company's consolidated financial statements and related disclosures.

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 condensed consolidated financial statements upon adoption.

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China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
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(In US\$ except for number of shares)
(Unaudited)

2. Pledged Deposits

Pledged deposits as of September 30, 2015 and March 31, 2016 consisted of the following:

	<i>September 30,</i> <i>2015</i>	<i>March 31,</i> <i>2016</i>
Pledged deposits with bank for:		
Bills payable	\$ 1,461,757	\$ 1,893,393
Letters of credit	57,844	121,570
	\$ 1,519,601	\$ 2,014,963

3. Trade Accounts and Bills Receivable, net

Trade accounts and bills receivables, net as of September 30, 2015 and March 31, 2016 consisted of the following:

	<i>September 30,</i> <i>2015</i>	<i>March 31,</i> <i>2016</i>
Trade accounts receivable	\$ 4,792,416	\$ 7,079,421
Less: Allowance for doubtful accounts	(122,115)	(127,900)
	4,670,301	6,951,521
Bills receivable	101,657	-
	\$ 4,771,958	\$ 6,951,521

An analysis of the allowance for doubtful accounts is as follows:

	<i>March 31,</i> <i>2015</i>	<i>March 31,</i> <i>2016</i>
Balance at beginning of period	\$ -	\$ 122,115
Provision for the period	-	58,675
Reversal by cash for the period	-	(51,242)
Charged to condensed consolidated statements of operations and comprehensive (loss) income	-	7,433
Foreign exchange adjustment	-	(1,648)
Balance at end of period	\$ -	\$ 127,900

China BAK Battery, Inc. and subsidiaries
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4. Inventories

Inventories as of September 30, 2015 and March 31, 2016 consisted of the following:

	<i>September 30,</i> <i>2015</i>	<i>March 31,</i> <i>2016</i>
Raw materials	\$ 712,713	\$ 1,854,690
Work in progress	1,441,368	1,637,031
Finished goods	903,494	1,068,019
	\$ 3,057,575	\$ 4,559,740

During the three months ended March 31, 2015 and 2016, write-downs of obsolete inventories to lower of cost or market of nil and \$96,910 respectively, were charged to cost of revenues.

During the six months ended March 31, 2015 and 2016, write-downs of obsolete inventories to lower of cost or market of nil and \$239,035 respectively, were charged to cost of revenues.

5. Prepayments and Other Receivables

Prepayments and other receivables as of September 30, 2015 and March 31, 2016 consisted of the following:

	<i>September 30,</i> <i>2015</i>	<i>March 31,</i> <i>2016</i>
Value added tax recoverable	\$ 1,719,062	\$ 2,756,115
Prepayments to suppliers	447,430	489,920
Deposits	154,892	138,630
Staff advances	42,718	72,953
Prepaid operating expenses	195,556	257,430
	2,559,658	3,715,048
Less: Allowance for doubtful accounts	(7,000)	(7,000)
	\$ 2,552,658	\$ 3,708,048

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China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
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6. Balances with Former Subsidiaries

Receivables from former subsidiaries as of September 30, 2015 and March 31, 2016 consisted of the following:

	<i>September 30, 2015</i>	<i>March 31, 2016</i>
Shenzhen BAK	\$ 62,963	\$ -
BAK Tianjin	623,551	-
	686,514	-

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

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 (property leasing and management of its Research and Development Centre in Shenzhen) 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.

In October 2015, the Company made an advance of approximately RMB40 million (\$6.2 million) to BAK Tianjin, with the approval by the board of directors, to source battery cells for its customers. As of December 31, 2015, the Company received approximately RMB20 million (approximately \$3.1 million) of cells and was refunded the remaining RMB20 million (approximately \$3.1 million) in cash from BAK Tianjin in January 2016.

Payables to former subsidiaries as of September 30, 2015 and March 31, 2016 consisted of the following:

	<i>September 30, 2015</i>	<i>March 31, 2016</i>
Shenzhen BAK	\$ -	\$ 108,634
BAK Tianjin	-	703,736
	-	812,370

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

7. Property, Plant and Equipment, net

Property, plant and equipment as of September 30, 2015 and March 31, 2016 consisted of the following:

	<i>September 30, 2015</i>	<i>March 31, 2016</i>
Buildings	\$ 18,440,000	\$ 18,187,350
Machinery and equipment	4,020,238	4,052,536
Office equipment	37,050	51,615
Motor vehicles	147,197	145,181
	22,644,485	22,436,682
Accumulated depreciation	(369,665)	(925,783)
Carrying amount	\$ 22,274,820	\$ 21,510,899

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Depreciation expense for the three and six months ended March 31, 2015 and 2016 is included in the condensed consolidated statements of operations as follows:

	<i>Three months ended March 31,</i>		<i>Six months ended March 31,</i>	
	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>
Cost of revenues	\$ -	\$ 148,712	\$ -	\$ 417,637
Research and development expenses	-	29,152	-	29,600
General and administrative expenses	6,750	95,158	13,259	112,141
	\$ 6,750	\$ 273,022	\$ 13,259	\$ 559,378
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China BAK Battery, Inc. and subsidiaries
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7. Property, Plant and Equipment, net (continued)

The Company has not yet obtained the property ownership of the buildings in its Dalian manufacture facilities with a carrying amount of \$18,318,313 and \$17,820,130 as of September 30, 2015 and March 31, 2016, respectively. The management expects that they will obtain the property ownership rights in June 2016.

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, 2015 and 2016.

8. Construction in Progress

Construction in progress as of September 30, 2015 and March 31, 2016 consisted of the following:

	<i>September 30, 2015</i>	<i>March 31, 2016</i>
Construction in progress	\$ 13,009,922	\$ 16,242,021
Prepayment for acquisition of property, plant and equipment	29,451	2,509,335
Carrying amount	\$ 13,039,373	\$ 18,751,356

Construction in progress as of September 30, 2015 and March 31, 2016 is mainly comprised of capital expenditures for the construction of the facilities and production lines of Dalian BAK Power.

For the three months ended March 31, 2015 and 2016, the Company capitalized interest of \$93,780 and \$242,338, respectively, to the cost of construction in progress.

For the six months ended March 31, 2015 and 2016, the Company capitalized interest of \$191,041 and \$490,430, respectively, to the cost of construction in progress.

9. Prepaid Land Use Rights, net

Prepaid land use rights as of September 30, 2015 and March 31, 2016 consisted of the followings:

	<i>September 30, 2015</i>	<i>March 31, 2016</i>
Prepaid land use rights	\$ 8,838,220	\$ 8,717,127
Accumulated amortization	(206,225)	(290,571)
	\$ 8,631,995	\$ 8,426,556
Less: Classified as current assets	(176,764)	(174,343)
	\$ 8,455,231	\$ 8,252,213

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 m² in Dalian Economic Zone for 50 years up to August 9, 2064, at a total

consideration of \$8,234,000 (RMB53.1 million). Other incidental costs incurred totaled \$482,000 (RMB3.1 million).

Amortization expenses of prepaid land use rights were \$44,875 and \$42,936 for the three months ended March 31, 2015 and 2016 and \$113,404 and \$86,891 for the six months ended March 31, 2015 and 2016, respectively.

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China BAK Battery, Inc. and subsidiaries
Notes to the condensed consolidated financial statements
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(Unaudited)

10. Intangible Assets, net

Intangible assets as of September 30, 2015 and March 31, 2016 consisted of the followings:

	<i>September 30,</i>		<i>March 31,</i>
	<i>2015</i>		<i>2016</i>
Computer software at cost	\$ 27,984	\$	27,600
Accumulated amortization	(1,166)		(2,530)
	\$ 26,818	\$	25,070

Amortization expenses were nil and \$679 for the three months ended March 31, 2015 and 2016 and nil and \$1,376 for the six months ended March 31, 2015 and 2016, respectively.

11. Short-term Bank Loans

As of September 30, 2015 and March 31, 2016, the Company had short term bank borrowings of \$12,585,740 and \$12,896,137, respectively.

Under the banking facilities granted by Bank of Dandong on June 22, 2015 (Note 1), the Company borrowed a loan of \$7,758,313 (RMB50 million) from Bank of Dandong for a period from June 25, 2015 to June 22, 2016, bearing fixed interest at 7.84% per annum. On August 18, 2015, the Company borrowed another loan of \$4,654,988 (RMB30 million) with a fixed interest rate at 7.84% per annum for the period from August 18, 2015 to June 10, 2016. During the three months ended March 31, 2016, the Company borrowed bank loans of \$482,836 bearing interest from 5.86% to 5.89% and expiring through July 2016 under the matured letter of credits.

The banking facilities were guaranteed by Mr. Xiangqian Li, the Company's former CEO and his wife, Ms. Xiaoqiu Yu, and Shenzhen BAK, a former subsidiary of the Company. The facilities were also secured by the Company's assets with the following carrying amounts:

	<i>September 30,</i>		<i>March 31,</i>
	<i>2015</i>		<i>2016</i>
Pledged deposits (note 2)	\$ 1,519,601	\$	2,014,963
Prepaid land use rights (note 9)	8,631,995		8,426,556
Buildings	13,120,083		12,319,168
Machinery and equipment	3,831,790		3,409,939
Construction in progress	6,228,371		6,143,035
	\$ 33,331,840	\$	32,313,661

As of March 31, 2016, the Company had unutilized committed banking facilities of \$0.8 million.

During the three months ended March 31, 2015 and 2016, interest of \$93,780 and \$242,338, respectively, was incurred on the Company's bank borrowings.

During the six months ended March 31, 2015 and 2016, interest of \$191,041 and \$490,430, respectively, was incurred on the Company's bank borrowings.

China BAK Battery, Inc. and subsidiaries
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12. Other Short-term Loans

Other short-term loans as of September 30, 2015 and March 31, 2016 consisted of the following:

	<i>Note</i>	<i>September 30, 2015</i>	<i>March 31, 2016</i>
Advance from related parties			
Tianjin BAK New Energy Research Institute Co., Ltd (Tianjin New Energy)	(a)	\$ 6,094	\$ 471,510
Mr. Xiangqian Li, the Company's former CEO	(b)	100,000	100,000
		106,094	571,510
Advances from unrelated third parties	(c)		
Mr. Mingzhe Li		-	155,166
Mr. Yunfei Li		78,661	-
		78,661	155,166
		\$ 184,755	\$ 726,676

- (a) The Company received an advance from Tianjin New Energy, a related company under the common control of Mr. Xiangqian Li, the Company's former CEO, which was unsecured, non-interest bearing and repayable on demand. As of September 30, 2015 and March 31, 2016, \$453,087 and \$343,276 payable to Tianjin New Energy was included in trade accounts and bills payable.
- (b) Advance from Mr. Xiangqian Li, the Company's former CEO, was unsecured, non-interest bearing and repayable on demand.
- (c) Advances from unrelated third parties were unsecured, non-interest bearing and repayable on demand.

13. Accrued Expenses and Other Payables

Accrued expenses and other payables as of September 30, 2015 and March 31, 2016 consisted of the following:

	<i>September 30, 2015</i>	<i>March 31, 2016</i>
Construction costs payable	\$ 8,625,828	\$ 5,516,971
Liquidated damages (note a)	1,210,119	1,210,119
Equipment purchase payable	611,833	1,937,778
Customer deposits	260,015	461,476
Accrued staff costs	444,249	762,166
Product warranty (note b)	-	195,316
Other payables and accruals	417,937	545,664
	\$ 11,569,981	\$ 10,629,490

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13. Accrued Expenses and Other Payables (continued)

- (a) 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, 2015 and March 31, 2016, 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, 2015 and March 31, 2016, 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.

- (b) The Company maintains a policy of providing after sales support for certain of its new EV and LEV battery products introduced since October 1, 2015 by way of a warranty program. The Company accrues an estimate of its exposure to warranty claims based on both current and historical product sales data and warranty costs incurred. The Company assesses the adequacy of its recorded warranty liability at least annually and adjusts the amounts as necessary. The Company recognized warranty expenses amounting to approximately nil and \$131,184 for the three months ended March 31, 2015 and 2016 and nil and \$194,688 for the six months ended March 31, 2015 and 2016, respectively, which are included in its sales and marketing expenses.

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14. Deferred Government Grants

Deferred government grants as of September 30, 2015 and March 31, 2016 consist of the following:

	<i>September 30,</i>		<i>March 31,</i>
	<i>2015</i>		<i>2016</i>
Total government grants	\$ 7,195,624	\$	7,007,524
Less: Current portion	(181,510)		(179,023)
Non-current portion	\$ 7,014,114	\$	6,828,501

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 the Company's 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 \$1,016,327. No such income or offset was recognized in fiscal 2016.

On October 17, 2014, the Company received a subsidy of RMB46.2 million (\$7.2 million) pursuant to an agreement with the Management Committee dated July 2, 2013 for costs of land use rights and to be used to construct the new manufacturing site in Dalian. Part of the facilities had been completed and commenced to operate in July 2015 and the Company has initiated amortization on a straight-line basis over the estimated useful lives of the depreciable facilities constructed thereon. The Company expects that the remaining facilities will be completed and put into operation by June 2016. The Company offset government grants of nil and \$44,089 for the three months ended March 31, 2015 and 2016 and nil and \$89,224 for the six months ended March 31, 2015 and 2016, against depreciation expenses of the Dalian facilities, respectively.

15. 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 (credit) expenses consisted of:

	<i>Three months ended March 31,</i>		<i>Six months ended March 31,</i>	
	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>
PRC income tax:				
Current	-	-	-	-
Deferred	(41,532)	(57,241)	5,803,534	14,826
	\$ (41,532)	\$ (57,241)	\$ 5,803,534	\$ 14,826

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, 2015 and 2016.

Hong Kong Tax

BAK Asia is 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, 2015 and 2016 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, 2015 and 2016.

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15. Income Taxes, Deferred Tax Assets and Deferred Tax Liabilities (continued)*(a) Income taxes in the condensed consolidated statements of comprehensive loss (income)(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:

	<i>Three months ended March 31,</i>		<i>Six months ended March 31,</i>	
	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>
(Loss) profit before income taxes	\$ (495,756)	\$ (1,960,399)	\$ 22,737,903	\$ (4,021,005)
United States federal corporate income tax rate	35%	35%	35%	35%
Income tax (credit) expenses computed at United States statutory corporate income tax rate	(173,515)	(686,139)	7,958,266	(1,407,351)
Reconciling items:				
Valuation allowance on deferred tax assets	46,337	336,907	47,012	836,507
Rate differential for PRC earnings	47,349	146,434	(2,292,612)	310,230
Non-deductible expenses	33,088	66,495	91,172	81,281
Share based payments	-	112,475	-	243,187
Others	5,209	(33,413)	(304)	(49,028)
Income tax (credit) expenses	\$ (41,532)	\$ (57,241)	\$ 5,803,534	\$ 14,826

(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, 2015 and March 31, 2016 are presented below:

	<i>September 30,</i>	<i>March 31,</i>
	<i>2015</i>	<i>2016</i>
Deferred tax assets		
Trade accounts receivable	\$ 32,979	\$ 34,437
Inventories	54,127	75,787
Property, plant and equipment	5,976	3,537
Valuation allowance	(49,907)	(113,761)
Deferred tax assets, current portion	\$ 43,175	\$ -
Net operating loss carried forward	12,470,938	13,241,142
Valuation allowance	(12,470,938)	(13,241,142)
Deferred tax assets, non-current	\$ -	\$ -
Deferred tax liabilities, non-current		
Property, plant and equipment	\$ 142,650	\$ 84,418

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

As of September 30, 2015 and March 31, 2016, the Company's U.S. entity had net operating loss carry forwards of \$35,318,443, of which \$102,293 was available to reduce future taxable income which will expire in various years through 2035 and \$35,216,150 was available to offset capital gains recognized through 2020 and the Company's PRC subsidiaries had net operating loss carry forwards of \$437,933 and \$3,518,748, respectively, which will expire in various years through 2020. 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, 2015 and March 31, 2016 of approximately of \$14.2 million and \$11.1 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, 2015 and March 31, 2016, 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, 2015 and 2016, and no provision for interest and penalties is deemed necessary as of September 30, 2015 and March 31, 2016.

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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16. 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 17, 2015, the Company's stockholders approved an amendment to Section 1.7 of the Plan that if an option terminates without being wholly exercised, new options or restricted stock may be granted hereunder covering the number of shares to which such option termination relates. Section 1.7 of the Plan originally provided that only new options may be granted in this case.

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 as of September 30, 2015 and March 31, 2016 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, 2015	4,200	\$ 14.05	0.7 years	
Exercised	-			
Cancelled	-			
Forfeited	-			
Outstanding as of March 31, 2016	4,200	\$ 14.05	0.2 years	\$ -
Exercisable as of March 31, 2016	4,200	\$ 14.05	0.2 years	\$ -

(1)

The intrinsic values of option at March 31, 2016 was zero since the share market value of common stock of \$2.34 was lower than the exercise price of the option of \$14.05 per share.

As of September 30, 2015 and March 31, 2016, there were no unrecognized compensation costs related to the above non-vested share options.

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16. Share-based Compensation (continued)*(ii) Restricted Shares*

Restricted shares granted on June 30, 2015

On June 12, 2015, the Board of Director approved the China BAK Battery, Inc. 2015 Equity Incentive Plan (the 2015 Plan) for Employees, Directors and Consultants of the Company and its Affiliates. The maximum aggregate number of Shares that may be issued under the Plan is ten million (10,000,000) Shares.

On June 30, 2015, pursuant to the 2015 Plan, the Compensation Committee of the Company's Board of Directors granted an aggregate of 690,000 restricted shares of the Company's common stock, par value \$0.001, to certain employees, officers and directors of the Company with a fair value of \$3.24 per share on June 30, 2015. In accordance with the vesting schedule of the grant, the restricted shares will vest in twelve equal quarterly installments on the last day of each fiscal quarter beginning on June 30, 2015 (i.e. last vesting period: quarter ending March 31, 2018). The Company recognizes the share-based compensation expenses on graded-vesting method.

The Company recorded non-cash share-based compensation expense of \$321,355 for the three months ended March 31, 2016, in respect of the restricted shares granted on June 30, 2015, of which \$263,139, \$37,259 and \$20,957 were allocated to general and administrative expenses, research and development expenses and sales and marketing expenses and \$694,819 for the six months ended March 31, 2016, in respect of the restricted shares granted on June 30, 2015, of which \$568,946, \$80,559 and \$45,314 were allocated to general and administrative expenses, research and development expenses and sales and marketing expenses, respectively.

As of March 31, 2016, non-vested restricted shares granted on June 30, 2015 is as follows:

Non-vested shares as of September 30, 2015	575,000
Granted	-
Vested	(112,500)
Forfeited ^{Note}	(22,500)
Non-vested shares as of March 31, 2016	440,000

Note:

During the three and six month period March 31, 2016, 22,500 restricted shares were forfeited following the resignation of Mr. Chunzhi Zhang, an independent director on January 14, 2016. Unrecognized compensation cost of \$48,172 was recognized as to general and administrative expenses.

As of March 31, 2016, there was unrecognized stock-based compensation of \$790,614 associated with the above restricted shares as of March 31, 2016. As of March 31, 2016, 136,666 vested shares were issued and 90,834 vested shares were to be issued. On April 13, 2016, the remaining 90,834 vested shares were issued.

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, 2015 and

2016.

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17. (Loss) Earnings Per Share

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

	<i>Three months ended March 31,</i>		<i>Six months ended March 31,</i>	
	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>
(Loss) profit after tax and before discontinued operations	\$ (454,224)	\$ (1,903,158)	\$ 16,934,369	\$ (4,035,831)
Income from discontinued operations, net of tax	1,521,519	-	1,521,519	-
Net profit (loss)	\$ 1,067,295	\$ (1,903,158)	\$ 18,455,888	\$ (4,035,831)
Weighted average shares used in basic and diluted computation ^{Note}	12,719,597	17,229,432	12,719,597	17,200,536
(Loss) earnings per share Basic and diluted				
From continuing operations	\$ (0.04)	\$ (0.11)	\$ 1.33	\$ (0.23)
From discontinued operations	0.12	-	0.12	-
	\$ 0.08	\$ (0.11)	\$ 1.45	\$ (0.23)

Note

Including 90,834 vested restricted shares granted pursuant to the 2015 Plan not yet issued for the three and six months ended March 31, 2016, respectively.

For the three and six months ended March 31, 2015 and 2016, the outstanding 4,200 stock options were anti-dilutive and excluded from diluted earnings per share.

For the three and six months ended March 31, 2016, the outstanding 440,000 unvested restricted shares were anti-dilutive and excluded from diluted loss per share.

18. 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:

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

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.

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, pledged deposits, trade accounts and bills receivable, other receivables, receivables from and payables to former subsidiaries, trade and bills payables, other short-term loans, short-term bank 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.

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19. Commitments and Contingencies*(i) Capital Commitments*

As of September 30, 2015 and March 31, 2016, the Company had the following contracted capital commitments:

	<i>September 30,</i> <i>2015</i>	<i>March 31,</i> <i>2016</i>
For construction of buildings	\$ 1,819,977	\$ 1,795,819
For purchases of equipment	68,718	67,777
Capital injection to Dalian BAK Power and Dalian BAK Trading ^{Note}	15,553,656	15,553,656
	\$ 17,442,351	\$ 17,417,252

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 in March 2014, the time requirement of the registered capital contribution has been abolished. As such, BAK Asia has its 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). 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.

On December 30, 2015, Mr. Ruth, China BAK Battery, Inc., BAK International Limited, Shenzhen BAK Battery Co., Ltd. and Shenzhen BAK Power Battery Co., Ltd. entered into a settlement and release agreement, pursuant to which, among others, the parties irrevocably released and forever discharged each other from and against any and all liabilities, claims, actions, cause of actions and damages, including any and all claims against the parties in the First

Judgement, the Second Judgement and certain recognition action commenced by Mr. Ruth in the Supreme Court of British Columbia of Canada. On May 6, 2016, the Supreme Court of British Columbia issued a consent dismissal order upon the applications of the parties and dismissed the recognition action.

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20. Concentrations and Credit Risk*(a) Concentrations*

The Company had three and two customers that individually comprised 10% or more of net revenue for the three months ended March 31, 2015 and 2016, respectively, as follows:

<i>Three months ended March 31,</i>					
	<i>2015</i>			<i>2016</i>	
Shenzhen Dibike Electronics Technology Co., Ltd	\$ 819,523	26.72%	\$ *	*	*
Guangdong Pisen Electronics Co., Ltd.	810,096	26.41%	*	*	*
Sichuan Pisen Electronics Co., Ltd	536,857	17.50%	*	*	*
Shandong Tangjun Electric Co., Ltd	*	*	1,362,787	42.60%	
Pingxiang Anyuan Tourist Bus Co., Ltd	\$ *	*	\$ 1,265,844	39.57%	

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

The Company had three and two customers that individually comprised 10% or more of net revenue for the six months ended March 31, 2015 and 2016, respectively, as follows:

<i>Six months ended March 31,</i>					
	<i>2015</i>			<i>2016</i>	
Guangdong Pisen Electronics Co., Ltd.	\$ 2,189,722	35.63%	\$ *	*	*
Sichuan Pisen Electronics Co., Ltd	1,976,898	32.17%	*	*	*
Shenzhen Dibike Electronics Technology Co., Ltd	819,523	13.34%	*	*	*
Shandong Tangjun Electric Co., Ltd	*	*	3,799,258	43.67%	
Pingxiang Anyuan Tourist Bus Co., Ltd	\$ *	*	\$ 2,468,130	28.37%	

The Company had two and two customers that individually comprised 10% or more of accounts receivable as of September 30, 2015 and March 31, 2016, respectively, as follows:

	<i>September 30, 2015</i>			<i>March 31, 2016</i>	
Sichuan Pisen Electronics Co., Ltd.	\$ 3,146,177	65.93%	\$ *	*	*
Guangdong Pisen Electronics Co., Ltd	763,738	16.01%	*	*	*
Shandong Tangjun Electric Co., Ltd	*	*	3,296,818	47.43%	
Pingxiang Anyuan Tourist Bus Co., Ltd	\$ *	*	\$ 2,708,893	38.97%	

* Comprised less than 10% of accounts receivable for the respective period.

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20. Concentrations and Credit Risk (Continued)*(a) Concentrations (Continued)*

For the three and six months ended March 31, 2015 and 2016, the Company recorded the following transactions with the former subsidiaries as follows:

	<i>Three months ended March 31,</i>		<i>Six months ended March 31,</i>	
	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>
Purchase of inventories from				
BAK Tianjin	\$ 1,824,814	\$ 140,400	\$ 3,559,757	\$ 3,185,306
Shenzhen BAK	-	11,888	-	17,231
Sales to				
BAK Tianjin	58,488	27,007	58,488	368,237
Shenzhen BAK	\$ 43,208	\$ 215,178	\$ 64,650	\$ 827,517

(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, 2015 and March 31, 2016, substantially all of the Company's cash and cash equivalents and pledged deposits were held by major financial institutions located in the PRC, which management believes are of high credit quality.

For the credit risk related to trade accounts receivable, the Company performs ongoing credit evaluations of its customers and, if necessary, maintains reserves for potential credit losses. Historically, such losses have been within management's expectations.

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(Unaudited)

21. Segment Information

The Company engages in one business segment, the manufacture, commercialization and distribution of a wide variety of standard and customized rechargeable batteries for use in a wide array of applications. The Company used to manufacture 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 were sold to packing plants operated by third parties primarily for use in mobile phones and other electronic devices. After the disposal of BAK International, the Company focused on producing high-power lithium battery cells. Net revenues for the three and six months ended March 31, 2015 and 2016 were as follows:

Net revenues by product:

	Three months ended March 31,		Six months ended March 31,	
	2015	2016	2015	2016
High power lithium batteries used in:				
Electric vehicles	\$ -	\$ 2,742,955	\$ -	\$ 6,407,879
Light electric vehicles	-	53,367	-	145,091
Uninterruptable supplies	3,066,307	402,591	6,145,414	2,146,532
	\$ 3,066,307	\$ 3,198,913	\$ 6,145,414	\$ 8,699,502

Net revenues by geographic area:

	Three months ended March 31,		Six months ended March 31,	
	2015	2016	2015	2016
PRC Mainland	\$ 3,066,307	\$ 2,771,540	\$ 6,145,414	\$ 8,161,667
Europe	-	251,206	-	251,206
PRC Taiwan	-	176,058	-	285,526
Others	-	109	-	1,103
	\$ 3,066,307	\$ 3,198,913	\$ 6,145,414	\$ 8,699,502

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

22. Subsequent Events

On April 19, 2016, pursuant to the Company's 2015 Equity Incentive Plan, the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") granted an aggregate of 500,000 restricted shares of the Company's common stock, par value \$0.001 (the "Restricted Shares"), to certain employees, officers and directors of the Company, of which 220,000 restricted shares were granted to the Company's executive officers and directors. The restricted shares vest semi-annually in 6 equal installments over a three year period with the first vesting on December 31, 2016.

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

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

Special Note Regarding Forward Looking Statements

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as believe, expect, anticipate, project, target, plan, optimistic, intend, 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, 2015, 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.

Overview

Our Dalian manufacturing facilities began partial commercial operations in July 2015. As a result, we are 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.

We have received most of the operating assets, including customers, employees, patents and technologies of our former subsidiary, BAK International (Tianjin) Ltd. (BAK Tianjin). Such assets were acquired in exchange for a reduction in receivables from our former subsidiaries that were disposed in June 2014. We have outsourced and will continue to outsource our production to BAK Tianjin or other manufacturers until our Dalian manufacturing facility can fulfill our customers' needs. For the three months ended March 31, 2016, Dalian BAK Power had purchased from BAK Tianjin of approximately \$0.1 million.

We generated revenues of \$3.1 million and \$3.2 million for the three months ended March 31, 2015 and 2016, respectively. During the three months ended March 31, 2016, we recorded a net loss of \$1.9 million while during the same period in fiscal year 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, 2016, we had an accumulated deficit of \$131.2 million and net assets of \$18.0 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, 2016.

In June 2015, we received banking facilities from Bank of Dandong to provide a maximum loan amount of \$12.4 million and bank acceptance and letters of credit of \$6.2 million to June 2016. The banking facilities were guaranteed by Shenzhen BAK Battery Co., Ltd., our former subsidiary (Shenzhen BAK), Mr. Xiangqian Li (Mr. Li), our former CEO, and Ms. Xiaoqiu Yu, Mr Li's wife. The facilities were also secured by our Dalian site's prepaid land use rights, buildings, construction in progress, machinery and equipment and pledged deposits. Under the banking facilities, on June 25, 2015 we borrowed a one-year term bank loan of RMB50 million (approximately \$7.7 million), bearing fixed interest at 7.84% per annum. On August 18, 2015, we borrowed a new one-year term loan of RMB30 million (\$4.6 million) bearing a fixed interest at 7.84% per annum. We also borrowed a series of \$0.5 million of short term loans arising from the matured letters of credit from Bank of Dandong under the credit facilities. As of March 31, 2016, we had unutilized committed banking facilities of \$0.8 million. We plan to renew these loans upon maturity, and intend to raise additional funds through bank borrowings and equity financing in the future to meet our daily cash demands, if required.

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 that the booming 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 2016:

- **Net revenues:** Net revenues increased by \$0.1 million, or 4.3%, to \$3.2 million for the three months ended March 31, 2016, from \$3.1 million for the same period in 2015.
- **Gross (loss) profit:** Gross loss was \$99,000, representing a decrease of \$0.4 million, for the three months ended March 31, 2016, from gross profit of \$0.3 million for the same period in 2015.

- **Operating loss:** Operating loss was \$1.9 million for the three months ended March 31, 2016, reflecting an increase of \$1.7 million from an operating loss of \$0.3 million for the same period in 2015.
 - **Net (loss) profit:** Net loss was \$1.9 million for the three months ended March 31, 2016, representing a decrease of \$3.0 million from a net profit of \$1.1 million for the same period in 2015.
 - **Fully diluted (loss) earnings per share:** Fully diluted loss per share was \$0.11 for the three months ended March 31, 2016, as compared to fully diluted earnings per share of \$0.08 for the same period in 2015.
-

Financial Statement Presentation

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

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.

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, warranty 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.

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 charges and bad debt expenses.

Government grant income. We present the government subsidies received as income unless the subsidies received are earmarked to compensate a specific expense, which have been accounted for by offsetting the specific expense, 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, net of capitalized interest.

Income tax expenses. Our subsidiaries in the PRC are subject to income tax rate of 25%. Our Hong Kong subsidiary BAK Asia is subject to a profits tax at a rate of 16.5%. However, because we did not have any assessable income derived from or arising in the region, the entity had not paid any such tax.

Results of Operations**Comparison of Three Months Ended March 31, 2015 and 2016**

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

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

	Three months ended March 31,		Change	
	2015	2016	\$	%
Net revenues	\$ 3,066	\$ 3,199	\$ 133	4.3
Cost of revenues	(2,717)	(3,298)	(581)	21.4
Gross profit (loss)	349	(99)	(448)	(128.4)
Operating expenses:				
Research and development expenses	54	360	306	566.7
Sales and marketing expenses	19	300	281	1,478.9
General and administrative expenses	538	1,171	633	117.7
Total operating expenses	611	1,831	1,220	199.7
Operating loss	(262)	(1,930)	(1,668)	636.6
Finance income (cost), net	16	(37)	(53)	(331.3)
Government grant expense	(165)	-	165	100.0
Other (expenses) income, net	(85)	7	92	(108.2)
Loss before income tax and discontinued operations	(496)	(1,960)	(1,464)	295.2
Income tax credit	42	57	15	35.7
Loss before discontinued operations, net of tax	(454)	(1,903)	(1,449)	(319.2)
Income from discontinued operations, net of tax	1,522	-	(1,522)	(100.0)
Net profit (loss)	\$ 1,068	\$ (1,903)	\$ (2,971)	(278.2)

Net revenues. Net revenues were \$3.2 million for the three months ended March 31, 2016, as compared to \$3.1 million for the same period in 2015, representing an increase of \$0.1 million, or 4.3%.

The following table sets forth the breakdown of our net revenues by end-product applications derived from high-power lithium batteries for the three months ended March 31, 2015 and 2016.

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

	<i>Three months ended March 31,</i>	
	<i>2015</i>	<i>2016</i>
Electric vehicles	\$ -	\$ 2,743
Light electric vehicles	-	53
Uninterruptable power supplies	3,066	403
	\$ 3,066	\$ 3,199

Net revenues from sales of batteries for electric vehicles was \$2.7 million in the three months ended March 31, 2016, compared to nil in the same period of 2015. We started producing batteries for electric vehicles in Dalian facilities at the end of fiscal year 2015.

Net revenues from sales of batteries for light electric vehicles was approximately \$53,000 in the three months ended March 31, 2016, compared to nil in the same period of 2015.

Net revenues from sales of batteries for uninterruptable power supplies was \$0.4 million in the three months ended March 31, 2016, as compared with \$3.1 million in the same period in 2015, representing a decrease of \$2.7 million, or 86.9%. This change resulted from a decrease of 28.7% in average selling price mainly because we sold batteries with lower capacity and accordingly lower selling price in this quarter compared with the same period last year. Also, we focused on manufacturing of batteries for electric vehicles in fiscal 2016 and therefore the quantity decreased significantly by 81.5%.

Cost of revenues. Cost of revenues increased to \$3.3 million for the three months ended March 31, 2016, as compared to \$2.7 million for the same period in 2015, an increase of \$0.6 million, or 21.4%. Included in cost of revenues was write down of inventories, which is \$96,910 and nil for the three months ended March 31, 2016 and 2015, respectively. We write down the inventory value when there is an indication that it is impaired. However, further write-downs may be necessary if market conditions continue to deteriorate.

Gross (loss) profit. Gross loss for the three months ended March 31, 2016 was \$99,000, or 3.1% of net revenues as compared to a gross profit of \$0.3 million, or 11.4% of net revenues, for the same period in 2015. Our new Dalian facilities commenced manufacturing activities in July 2015. Inefficiency was inevitable due to the operation of the newly installed machinery and newly hired production staff. As a result, we incurred a gross loss in the second quarter of fiscal 2016.

Research and development expenses. Research and development expenses increased to \$0.4 million for the three months ended March 31, 2016, as compared to \$54,000 for the same period in 2015, an increase of approximately \$0.3 million, or 566.7%. This increase was mainly because there was no commercial operation in our Dalian site in the three months ended March 31, 2015. The research and development expenses in the three months ended March 31, 2016 were mainly comprised of \$0.1 million of material and consumable expenses and \$0.21 million of salary and wages including restricted shares granted to our research and development staff.

Sales and marketing expenses. Sales and marketing expenses increased to \$0.3 million for the three months ended March 31, 2016, as compared to approximately \$19,000 for the same period in 2015, an increase of \$0.3 million, or 1,478.9%, primarily due to the provision for warranty expenses of \$0.1 million according to our after sale service maintenance policy on electric vehicle battery products. We also expanded our sales team at our Dalian facilities. As of March 31, 2016, we had a sales team with 15 employees in Dalian. We incurred approximately \$97,000 in travelling and promotion expenses for our promotion of overseas sales during the second quarter of fiscal 2016 while we did not have overseas sales in the same period of 2015.

General and administrative expenses. General and administrative expenses increased to \$1.2 million, or 36.6% of revenues, for the three months ended March 31, 2016, as compared to \$0.5 million, or 17.5% of revenues, for the same period in 2015, an increase of \$0.6 million, or 117.7%. The primary reason for the increase was because we expanded our administrative and management teams after we commenced our commercial operations in Dalian. As a result, the salary and wages increased by \$0.2 million and the incentive restricted shares cost allocated to the management team increased by \$0.3 million as compared with the same period of fiscal year 2015.

Operating loss. As a result of the above, our operating loss totaled \$1.9 million for the three months ended March 31, 2016, as compared to \$0.3 million for the same period in 2015, an increase of \$1.7 million, or 636.6%.

Government grant expense. Government grant expense was nil for the three months ended March 31, 2016, as compared to \$0.2 million for the same period last year.

Income tax credit. Income tax credit was \$57,241 for the three months ended March 31, 2016 as compared to \$41,532 for the same period in 2015.

Income from discontinued operations, net of tax. Income from discontinued operations, net of tax was \$1.5 million and \$nil for the three months ended March 31, 2015 and 2016. 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 (loss) profit. As a result of the foregoing, we had a net loss of \$1.9 million for the three months ended March 31, 2016, compared to a net profit of \$1.1 million for the three months ended March 31, 2015.

Comparison of Six Months Ended March 31, 2015 and 2016

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

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

	Six months ended March 31,		Change	
	2015	2016	\$	%
Net revenues	\$ 6,145	\$ 8,700	\$ 2,555	41.6
Cost of revenues	(5,389)	(8,957)	(3,568)	66.2
Gross profit (loss)	756	(257)	(1,013)	(134.0)
Operating expenses:				
Research and development expenses	106	1,108	1,002	945.3
Sales and marketing expenses	38	470	432	1,136.8
General and administrative expenses	1,020	2,201	1,181	115.8
Total operating expenses	1,164	3,779	2,615	224.7
Operating loss	(408)	(4,036)	(3,628)	889.2
Finance income (cost), net	16	(35)	(51)	(318.8)
Government grant income	23,215	-	(23,215)	(100.0)
Other (expenses) income, net	(85)	50	135	158.8
Profit (loss) before income tax and discontinued operations	22,738	(4,021)	(26,759)	(117.7)
Income tax expenses	(5,804)	(15)	5,789	99.7
Profit (loss) before discontinued operations, net of tax	16,934	(4,036)	(20,970)	(123.8)
Income from discontinued operations, net of tax	1,522	-	(1,522)	(100.0)
Net profit (loss)	\$ 18,456	\$ (4,036)	\$ (22,492)	(121.9)

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Net revenues. Net revenues were \$8.7 million for the six months ended March 31, 2016, as compared to \$6.1 million for the same period in 2015, representing an increase of \$2.6 million, or 41.6%.

The following table sets forth the breakdown of our net revenues by end-product applications derived from high-power lithium batteries for the six months ended March 31, 2015 and 2016.

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

	<i>Six months ended March 31,</i>	
	<i>2015</i>	<i>2016</i>
Electric vehicles	\$ -	\$ 6,408
Light electric vehicles	-	145
Uninterruptable power supplies	6,145	2,147
	\$ 6,145	\$ 8,700

Net revenues from sales of batteries for electric vehicles was \$6.4 million in the six months ended March 31, 2016, compared to nil in the same period of 2015. We started producing batteries for electric vehicles in Dalian facilities at the end of fiscal year 2015.

Net revenues from sales of batteries for light electric vehicles was approximately \$0.1 million in the six months ended March 31, 2016, compared to nil in the same period of 2015.

Net revenues from sales of batteries for uninterruptable power supplies was \$2.1 million in the six months ended March 31, 2016, as compared with \$6.1 million in the same period in 2015, representing a decrease of \$4.0 million, or 65.1%. This change resulted from a decrease of 26.0% in average selling price mainly because we sold batteries with lower capacity and accordingly lower selling price in this period of fiscal 2016 compared with the same period last year. Also, as we focused on manufacturing our batteries used for electric vehicle in fiscal 2016, the quantity of uninterruptable power supplies reduced by 52.6% from prior year.

Cost of revenues. Cost of revenues increased to \$9.0 million for the six months ended March 31, 2016, as compared to \$5.4 million for the same period in 2015, an increase of \$3.6 million, or 66.2%. Included in cost of revenues was write down of inventories, which is \$239,035 and nil for the six months ended March 31, 2016 and 2015, respectively. We write down the inventory value when there is an indication that it is impaired. However, further write-downs may be necessary if market conditions continue to deteriorate.

Gross profit (loss). Gross loss for the six months ended March 31, 2016 was \$0.3 million, or 3.0% of net revenues as compared to a gross profit of \$0.8 million, or 12.3% of net revenues, for the same period in 2015. Our new Dalian facilities commenced manufacturing activities in July 2015. Inefficiency was inevitable due to the operation of the newly installed machinery and newly hired production staff. As a result, we incurred a gross loss in the first half of fiscal 2016.

Research and development expenses. Research and development expenses increased to \$1.1 million for the six months ended March 31, 2016, as compared to \$0.1 million for the same period in 2015, an increase of \$1.0 million, or 945.3%. This increase was mainly because we have not started commercial operations in our Dalian site in the six months ended March 31, 2015. The research and development expenses in the six months ended March 31, 2016 were mainly comprised of \$0.7 million of material and consumable expenses and \$0.4 million of salary and wages including restricted shares granted to our research and development staff.

Sales and marketing expenses. Sales and marketing expenses increased to \$0.5 million for the six months ended March 31, 2016, as compared to approximately \$38,000 for the same period in 2015, an increase of \$0.4 million, or 1,136.8%, primarily due to the provision for warranty expenses of \$0.2 million according to our after sale service maintenance policy on electric vehicle battery products. We also incurred \$0.1 million in travelling and promotion

expenses for our overseas sales during the first half of fiscal 2016 while we did not have overseas sales in the same period in fiscal year 2015.

General and administrative expenses. General and administrative expenses increased to \$2.2 million, or 25.3% revenues, for the six months ended March 31, 2016, as compared to \$1.0 million, or 16.6% of revenues, for the same period in 2015, an increase by \$1.2 million, or 115.8%. The primary reason for the increase was because we expanded our administrative and management teams after we commenced our commercial operations in Dalian. As a result, the salary and wages increased by \$0.4 million and the cost of restricted shares granted to management increased by \$0.6 million as compared with the same period of fiscal year 2015.

Operating loss. As a result of the above, our operating loss totaled \$4.0 million for the six months ended March 31, 2016, as compared to \$0.4 million for the same period in 2015, an increase of \$3.6 million, or 889.2%.

Government grant income. Government grant expense was nil for the six months ended March 31, 2016, as compared to \$23.2 million of government grant income for the same period last year. The government grant income in 2015 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 \$14,826 for the six months ended March 31, 2016 as compared to income tax expense of \$5.8 million for the same period in 2015. Income tax expense for the six months ended March 31, 2015 was due to the deferred tax impact of the government subsidies recognized.

Income from discontinued operations, net of tax. Income from discontinued operations, net of tax was \$1.5 million and nil for the six months ended March 31, 2015 and 2016. 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 (loss) profit. As a result of the foregoing, we had a net loss of \$4.0 million for the six months ended March 31, 2016, compared to a net profit of \$18.5 million for the six months ended March 31, 2015.

Liquidity and Capital Resources

We have financed our liquidity requirements from short-term bank loans and bills payable under bank credit agreements and issuance of capital stock.

As of March 31, 2016, we had cash and cash equivalents of \$1.6 million. Our total current assets were \$19.0 million and our total current liabilities were \$42.6 million, resulting in a net working capital deficiency of \$23.6 million. These factors raise substantial doubts about our ability to continue as a going concern.

On June 22, 2015, our subsidiary Dalian BAK Power entered into a banking facility letter with Bank of Dandong to provide a maximum loan amount of \$18.6 million (RMB120 million) to June 22, 2016. The banking facilities include \$12.4 million (RMB80 million) of short term loans and a \$6.2 million (RMB40 million) bank acceptance. The banking facilities were guaranteed by Shenzhen BAK, Mr. Xiangqian Li, our former Chief Executive Officer, and his wife, Ms. Xiaoqiu Yu. The facilities were also secured by Dalian BAK Power's buildings, construction in progress, prepaid land use rights and machineries and pledged deposits. On June 25, 2015, we borrowed \$7.8 million (RMB50 million) from Bank of Dandong for a period from June 25, 2015 to June 22, 2016, bearing fixed interest at 7.84% per annum. We borrowed another loan of \$4.6 million (RMB30 million) with a fixed interest rate at 7.84% per annum for the period from August 18, 2015 to June 10, 2016. In September 2015, we applied to Bank of Dandong to revise the bank acceptance facilities of \$6.2 million (RMB40 million) bank acceptance into a \$3.1 million (RMB20 million) bank acceptance and \$1.9 million (RMB12 million) letter of credit. During the first quarter of fiscal 2016, we applied to Bank of Dandong to revise the bank acceptance into \$4.0 million (RMB26 million) and letter of credit of \$1.3 million (RMB8.4 million). In the second quarter of fiscal 2016, we borrowed a series of short term loans totaled of \$0.5 million arising from the matured letters of credit from Bank of Dandong under the credit facilities. As of March 31, 2016, we had unutilized committed banking facilities of \$0.8 million. We are currently expanding our product lines and manufacturing capacity in our Dalian plant, which require more funding to finance the expansion. We plan

to raise additional funds through bank borrowings and equity financing in the future to meet its daily cash demands if required. We may also require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. We plan to renew these loans upon maturity, and plan to raise additional funds through bank borrowings and equity financing in the future to meet our daily cash demands, if required. However, there can be no assurance that we will be successful in obtaining this financing. If our existing cash and bank borrowing are insufficient to meet our requirements, we may seek to sell equity securities, debt securities or borrow from lending institutions. We can make no assurance that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of equity securities, including convertible debt securities, would dilute the interests of our current shareholders. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

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 that with the booming future market demand in high power lithium ion products, we can continue as a going concern and return to profitability.

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

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

	Six Months Ended March 31,	
	2015	2016
Net cash (used in) provided by operating activities	\$ (1,238)	\$ 2,041
Net cash provided by (used in) investing activities	4,566	(8,139)
Net cash (used in) provided by financing activities	(3,815)	1,023
Effect of exchange rate changes on cash and cash equivalents	(10)	(93)
Net decrease in cash and cash equivalents	(497)	(5,168)
Cash and cash equivalents at the beginning of period	992	6,763
Cash and cash equivalents at the end of period	\$ 495	\$ 1,595

Operating Activities

Net cash provided by operating activities was \$2.0 million in the six months ended March 31, 2016, as compared to net cash used in operating activities of \$1.2 million in the same period in 2015. The net cash provided by operating activities in the six months ended March 31, 2016 was mainly attributable to increase in trade accounts and bills payable of \$7.9 million, which were offset by our net loss of \$4.0 million and increase in trade accounts receivable of \$2.2 million.

Investing Activities

Net cash used in investing activities was \$8.1 million for the six months ended March 31, 2016, as compared to net cash provided by investing activities of \$4.6 million in the same period of 2015. The net cash used in investing activities in the six months ended March 31, 2016 was mainly comprised of the placement of \$0.5 million in pledged deposits for bills payables and a net cash payment of \$7.6 million to construct the Dalian facilities, including construction and purchase of equipment. The net cash provided by investing activities for the six months ended March 31, 2015 was mainly attributable to a \$7.5 million government grant received and \$1.4 million repayment from our former subsidiary, offset by a net cash payment of \$4.2 million to construct the Dalian facilities.

Financing Activities

Net cash provided by financing activities was \$1.0 million in the six months ended March 31, 2016, compared to net cash used in financing activities of \$3.8 million during the same period in 2015. We obtained bank loans of \$0.5 million and borrowed \$0.6 million from unrelated parties during the six months ended March 31, 2016. During the same period of 2015, we repaid a total of \$5.6 million short term advances to related and unrelated parties.

As of March 31, 2016, the principal amounts outstanding under our credit facilities and lines of credit were as follows:

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

	Maximum amount available	Amount borrowed
Short term credit facilities:		
Bank of Dandong	\$ 17,751	\$ 16,974
Capital Expenditures		

We incurred capital expenditures of \$7.6 million and \$4.3 million in the six months ended March 31, 2016 and 2015, respectively. Our capital expenditures in the first half of fiscal 2016 were used primarily to construct our manufacturing facilities in Dalian.

We estimate that our total capital expenditures for the remainder of fiscal year 2016 will reach approximately \$29.3 million. Such funds will be used to construct new plants and expand new automatic manufacturing lines in Dalian to fulfill our customer demands.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations and commercial commitments as of March 31, 2016:

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

	Total	Payments Due by Period			More than 5 years
		Less than 1 year	1 - 3 years	3 - 5 years	
Contractual Obligations					
Short-term bank loans	\$ 12,896	\$ 12,896	\$ -	\$ -	\$ -
Bills payables	3,787	3,787			
Advance from former subsidiaries	812	812			
Advance from related parties	572	572			
Advances from an unrelated third party	155	155	-	-	-
Capital injection to Dalian Power and Trading	15,554	15,554	-	-	-
Capital commitments for construction of buildings	1,796	1,796	-	-	-
Capital commitments for purchase of equipment	68	68	-	-	-
Future interest payment on short-term bank loans	221	221	-	-	-
Total	\$ 35,861	\$ 35,861	\$ -	\$ -	\$ -

Other than the contractual obligations and commercial commitments set forth above, we did not have any other long-term debt obligations, operating lease obligations, capital commitments, purchase obligations or other long-term liabilities as of March 31, 2016.

Off-Balance Sheet Transactions

We have not entered into any transactions, agreements or other contractual arrangements to which an entity unconsolidated with us is a party and under which we have (i) any obligation under a guarantee, (ii) any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity, (iii) any obligation under derivative instruments that are indexed to our shares and classified as shareholders' equity in our consolidated balance sheets, or (iv) any obligation arising out of a variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Critical Accounting Policies

Our condensed consolidated financial information has been prepared in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (3) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application. There have been no material changes to the critical accounting policies previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Changes in Accounting Standards

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2016. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and interim chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is

required to apply its judgment in evaluating and implementing possible controls and procedures.

Management conducted its evaluation of disclosure controls and procedures under the supervision of our Chief Executive Officer and our Interim Chief Financial Officer. Based upon, and as of the date of this evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were ineffective as of March 31, 2016.

As we disclosed in our Annual Report on Form 10-K filed with the SEC on January 13, 2016, during our assessment of the effectiveness of internal control over financial reporting as of September 30, 2015, management identified the following material weakness in our internal control over financial reporting:

We did not have appropriate policies and procedures in place to evaluate the proper accounting and disclosures of key documents and agreements.

We do not have sufficient and skilled accounting personnel with an appropriate level of technical accounting knowledge and experience in the application of accounting principles generally accepted in the United States commensurate with our financial reporting requirements.

In order to cure the foregoing material weakness, we have taken or are taking the following remediation measures:

We are in the process of hiring a permanent chief financial officer with significant U.S. GAAP and SEC reporting experience. Mr. Wenwu Wang was appointed by the Board of Directors of the Company as the Interim Chief Financial Officer on August 28, 2014.

We plan to make necessary changes by providing training to our financial team and our other relevant personnel on the U.S. GAAP accounting guidelines applicable to our financial reporting requirements.

We intend to complete the remediation of the material weaknesses discussed above as soon as practicable but we can give no assurance that we will be able to do so. Designing and implementing an effective disclosure controls and procedures is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to devote significant resources to maintain a financial reporting system that adequately satisfies our reporting obligations. The remedial measures that we have taken and intend to take may not fully address the material weakness that we have identified, and material weaknesses in our disclosure controls and procedures may be identified in the future. Should we discover such conditions, we intend to remediate them as soon as practicable. We are committed to taking appropriate steps for remediation, as needed.

Changes in Internal Control over Financial Reporting

Except for the matters described above, there were no changes in our internal controls over financial reporting during the second quarter of our fiscal year 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business. Other than the legal proceedings set forth below, we are currently not aware of any such legal proceedings or claims that we 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 on August 15, 2013 alleging breach of contract. China BAK Battery, Inc. 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 China BAK Battery, Inc. in the amount of \$553,774 for the First Judgment plus an additional \$7,550 in attorneys' fees (the Second Judgment). The Second Judgment is inclusive of the amounts ordered in the First Judgment. BAK International thereafter agreed to indemnify China BAK Battery, Inc. from any expenses, losses and damages that were incurred and will incur to China BAK Battery, Inc. due to the lawsuit filed by Mr. Ruth.

On December 30, 2015, Mr. Ruth, China BAK Battery, Inc., BAK International Limited, Shenzhen BAK Battery Co., Ltd. and Shenzhen BAK Power Battery Co., Ltd. entered into a settlement and release agreement, pursuant to which, among others, the parties irrevocably released and forever discharged each other from and against any and all liabilities, claims, actions, cause of actions and damages, including any and all claims against the parties in the First Judgment, the Second Judgment and certain recognition action commenced by Mr. Ruth in the Supreme Court of British Columbia of Canada. On May 6, 2016, the Supreme Court of British Columbia issued a consent dismissal order upon the applications of the parties and dismissed the recognition action.

ITEM 1A. RISK FACTORS.

There are no material changes from the risk factors previously disclosed in Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

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

Exhibit No.	Description
<u>31.1</u>	<u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	Interactive data files pursuant to Rule 405 of Regulation S-T.

SIGNATURES

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

Date: May 16, 2016

CHINA BAK BATTERY, INC.

By: /s/ Yunfei Li
Yunfei Li
Chief Executive Officer

By: /s/ Wenwu Wang
Wenwu Wang
Interim Chief Financial Officer

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