

CBAK Energy Technology, Inc.  
Form 10-Q  
May 21, 2018

---

**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, 2018**

☐ **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**

**CBAK ENERGY TECHNOLOGY, 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**

**Huayankou Economic Zone**

**Dalian City, Liaoning Province,**

**People's Republic of China, 116422**

(Address of principal executive offices, Zip Code)

**(86)(411)-3918-5985**

(Registrant's telephone number, including area code)

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 ☐

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).

Edgar Filing: CBAK Energy Technology, Inc. - Form 10-Q

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 ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

The number of shares outstanding of each of the issuer's classes of common stock, as of May 17, 2018 is as follows:

| <u>Class of Securities</u>      | <u>Shares Outstanding</u> |
|---------------------------------|---------------------------|
| Common Stock, \$0.001 par value | 26,231,817                |

---

**CBAK ENERGY TECHNOLOGY, INC.  
TABLE OF CONTENTS**

**PART I  
FINANCIAL INFORMATION**

|                |   |           |
|----------------|---|-----------|
| <u>Item 1.</u> | <u>Financial Statements.</u>  | <u>1</u>  |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u> | <u>2</u>  |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk.</u>                            | <u>10</u> |
| <u>Item 4.</u> | <u>Controls and Procedures.</u>   | <u>10</u> |

**PART II  
OTHER INFORMATION**

|                 |   |           |
|-----------------|---|-----------|
| <u>Item 1.</u>  | <u>Legal Proceedings.</u>   | <u>11</u> |
| <u>Item 1A.</u> | <u>Risk Factors.</u>  | <u>12</u> |
| <u>Item 2.</u>  | <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u> | <u>12</u> |
| <u>Item 3.</u>  | <u>Defaults Upon Senior Securities.</u>                             | <u>12</u> |
| <u>Item 4.</u>  | <u>Mine Safety Disclosures.</u>                                     | <u>12</u> |
| <u>Item 5.</u>  | <u>Other Information.</u>   | <u>12</u> |
| <u>Item 6.</u>  | <u>Exhibits.</u>  | <u>12</u> |

**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

**CBAK ENERGY TECHNOLOGY, INC. AND SUBSIDIARIES**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2018**

|  |                 |
|--|-----------------|
| Contents   | Page(s)         |
| <u>Condensed Consolidated Balance Sheets As of December 31, 2017 and March 31, 2018 (unaudited)</u>  | <u>F-2</u>      |
| <u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the three months ended March 31, 2017 and 2018 (unaudited)</u> | <u>F-3</u>      |
| <u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2017 and 2018 (unaudited)</u>   | <u>F-4</u>      |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2018 (unaudited)</u>                        | <u>F-5</u>      |
| <u>Notes to the Condensed Consolidated Financial Statements (unaudited)</u>  | <u>F-6-F-27</u> |

F-1

---

**CBAK Energy Technology, Inc. and Subsidiaries****Condensed consolidated balance sheets**

As of December 31, 2017 and March 31, 2018

(Unaudited)

(In US\$ except for number of shares)

|   | Note | December 31,<br>2017 | March 31,<br>2018<br>(Unaudited) |
|---|------|----------------------|----------------------------------|
| <b>Assets</b>   |      |                      |                                  |
| <i>Current assets</i>   |      |                      |                                  |
| Cash and cash equivalents   |      | \$ 1,644,535         | \$ 1,253,641                     |
| Pledged deposits  | 2    | 9,104,178            | 10,477,507                       |
| Trade accounts and bills receivable, net  | 3    | 57,518,612           | 44,312,579                       |
| Inventories   | 4    | 9,832,405            | 11,605,408                       |
| Prepayments and other receivables   | 5    | 6,971,810            | 7,157,606                        |
| Prepaid land use rights, current portion  | 9    | 172,700              | 179,049                          |
| Total current assets  |      | 85,244,240           | 74,985,790                       |
| Property, plant and equipment, net  | 7    | 34,965,510           | 35,840,227                       |
| Construction in progress  | 8    | 25,029,290           | 29,840,338                       |
| Prepaid land use rights, non-current  | 9    | 7,872,235            | 8,116,882                        |
| Intangible assets, net  | 10   | 20,049               | 20,078                           |
| Total assets  |      | \$ 153,131,324       | \$ 148,803,315                   |
| <b>Liabilities</b>  |      |                      |                                  |
| <i>Current liabilities</i>  |      |                      |                                  |
| Trade accounts and bills payable  | 11   | \$ 65,616,543        | \$ 60,290,058                    |
| Other short-term loans  | 12   | 14,636,450           | 17,848,019                       |
| Accrued expenses and other payables   | 13   | 14,208,947           | 14,102,123                       |
| Payables to former subsidiaries, net  | 6    | 22,302,721           | 21,321,988                       |
| Deferred government grants, current   | 14   | 152,003              | 157,591                          |
| Total current liabilities   |      | 116,916,664          | 113,719,779                      |
| Long-term bank loans  | 12   | 19,489,702           | 20,206,205                       |
| Deferred government grants, non-current   | 14   | 4,712,128            | 4,845,963                        |
| Product warranty provision  | 15   | 2,279,831            | 2,369,827                        |
| Long term tax payable   | 16   | 7,537,273            | 7,814,367                        |
| Total liabilities   |      | 150,935,598          | 148,956,141                      |
| Commitments and contingencies   | 20   |                      |                                  |
| <b>Shareholders' equity (deficit)</b>   |      |                      |                                  |
| Common stock \$0.001 par value; 500,000,000 authorized ;<br>26,367,523 issued and 26,223,317 outstanding as of December 31, |      | 26,368               | 26,377                           |

Edgar Filing: CBAK Energy Technology, Inc. - Form 10-Q

|   |                |                |
|---|----------------|----------------|
| 2017,<br>26,376,023 issued and 26,231,817 outstanding as of March 31,<br>2018 |                |                |
| Donated shares  | 14,101,689     | 14,101,689     |
| Additional paid-in capital  | 155,711,014    | 155,794,578    |
| Statutory reserves  | 1,230,511      | 1,230,511      |
| Accumulated deficit   | (163,466,713)  | (166,034,546)  |
| Accumulated other comprehensive loss  | (1,340,533)    | (1,204,825)    |
|   | 6,262,336      | 3,913,784      |
| Less: Treasury shares   | (4,066,610)    | (4,066,610)    |
| Total shareholders' equity (deficit)  | 2,195,726      | (152,826)      |
| Total liabilities and shareholder's equity                                    | \$ 153,131,324 | \$ 148,803,315 |
| See accompanying notes to the condensed consolidated financial statements.    |                |                |

F-2

**CBAK Energy Technology, Inc. and Subsidiaries**  
**Condensed consolidated statements of operations and comprehensive income (loss)**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

|  | Note | <i>Three months ended March 31,</i> |                |
|--|------|-------------------------------------|----------------|
|  |      | <i>2017</i>                         | <i>2018</i>    |
| Net revenues                                       | 22   | \$ 3,716,144                        | \$ 3,312,797   |
| Cost of revenues                                   |      | (4,133,321)                         | (3,659,943)    |
| Gross loss   |      | (417,177)                           | (347,146)      |
| Operating expenses:                                |      |                                     |                |
| Research and development expenses                  |      | (430,344)                           | (817,090)      |
| Sales and marketing expenses                       |      | (234,880)                           | (204,586)      |
| General and administrative expenses                |      | (975,371)                           | (1,131,294)    |
| (Provision for) Recovery of doubtful accounts      | 3    | (9,105)                             | 86,653         |
| Total operating expenses                           |      | (1,649,700)                         | (2,066,317)    |
| Operating loss                                     |      | (2,066,877)                         | (2,413,463)    |
| Finance expenses, net                              |      | (2,728)                             | (170,089)      |
| Other income, net                                  |      | 1,389                               | 15,719         |
| Loss before income tax                             |      | (2,068,216)                         | (2,567,833)    |
| Income tax expense                                 | 16   | -                                   | -              |
| Net loss   |      | \$ (2,068,216)                      | \$ (2,567,833) |
| Other comprehensive income (loss)                  |      |                                     |                |
| Foreign currency translation adjustment            |      | (19,646)                            | 135,708        |
| Comprehensive loss                                 |      | \$ (2,087,862)                      | \$ (2,432,125) |
| Loss per share                                     | 18   |                                     |                |
| Basic and diluted                                  |      | \$ (0.10)                           | \$ (0.10)      |
| Weighted average number of shares of common stock: | 18   |                                     |                |
| Basic and diluted                                  |      | 19,856,778                          | 26,502,086     |

See accompanying notes to the condensed consolidated financial statements.

**CBAK Energy Technology, Inc. and Subsidiaries**  
**Condensed consolidated statements of changes in shareholders' equity**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

|  | Common stock issued |                  | Donated<br>shares    | Additional<br>paid-in<br>capital | Statutory<br>reserves | Accumulated<br>deficit  | Accumulated<br>other<br>comprehensive<br>loss | Treas<br>Number<br>of shares |
|--|---------------------|------------------|----------------------|----------------------------------|-----------------------|-------------------------|---|------------------------------|
|  | Number<br>of shares | Amount           |                      |                                  |                       |                         |   |                              |
| <b>Balance as of<br/>January 1,<br/>2017</b>                                   | <b>19,744,675</b>   | <b>\$ 19,745</b> | <b>\$ 14,101,689</b> | <b>\$ 145,353,067</b>            | <b>\$ 1,230,511</b>   | <b>\$ (141,999,372)</b> | <b>\$ (1,961,461)</b>                         | <b>(144,206)</b>             |
| Net loss   | -                   | -                | -                    | -                                | -                     | (2,068,216)             | -   | -                            |
| Share-based<br>compensation<br>for employee<br>and director<br>stock awards    | -                   | -                | -                    | 252,488                          | -                     | -                       | -   | -                            |
| Common<br>stock issued to<br>employees<br>and directors<br>for stock<br>awards | 111,499             | 112              | -                    | (112)                            | -                     | -                       | -   | -                            |
| Foreign<br>currency<br>translation<br>adjustment                               | -                   | -                | -                    | -                                | -                     | -                       | (19,646)                                      | -                            |
| <b>Balance as of<br/>March 31,<br/>2017</b>                                    | <b>19,856,174</b>   | <b>\$ 19,857</b> | <b>\$ 14,101,689</b> | <b>\$ 145,605,443</b>            | <b>\$ 1,230,511</b>   | <b>\$ (144,067,588)</b> | <b>\$ (1,981,107)</b>                         | <b>(144,206)</b>             |
| <b>Balance as of<br/>January 1,<br/>2018</b>                                   | <b>26,367,523</b>   | <b>\$ 26,368</b> | <b>\$ 14,101,689</b> | <b>\$ 155,711,014</b>            | <b>\$ 1,230,511</b>   | <b>\$ (163,466,713)</b> | <b>\$ (1,340,533)</b>                         | <b>(144,206)</b>             |
| Net loss   | -                   | -                | -                    | -                                | -                     | (2,567,833)             | -   | -                            |
| Share-based<br>compensation<br>for employee<br>and director<br>stock awards    | -                   | -                | -                    | 83,573                           | -                     | -                       | -   | -                            |
| Common<br>stock issued to<br>employees<br>and directors<br>for stock           | 8,500               | 9                | -                    | (9)                              | -                     | -                       | -   | -                            |



|             |   |   |   |   |   |   |   |         |   |
|-------------|---|---|---|---|---|---|---|---------|---|
| awards      |   |   |   |   |   |   |   |         |   |
| Foreign     |   |   |   |   |   |   |   |         |   |
| currency    |   |   |   |   |   |   |   |         |   |
| translation |   |   |   |   |   |   |   |         |   |
| adjustment  | - | - | - | - | - | - | - | 135,708 | - |

**Balance as of**  
**March 31,**  
**2018**

**26,376,023 \$ 26,377 \$ 14,101,689 \$ 155,794,578 \$ 1,230,511 \$ (166,034,546)\$ (1,204,825) (144,206**

See accompanying notes to the condensed consolidated financial statements.

F-4

**CBAK Energy Technology, Inc. and subsidiaries**  
**Condensed Consolidated statements of cash flows**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

|   | Three months ended March 31, |                      |
|---|------------------------------|----------------------|
|   | 2017                         | 2018                 |
| <b>Cash flows from operating activities</b>   |                              |                      |
| Net loss  | \$ (2,068,216)               | \$ (2,567,833)       |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: |                              |                      |
| Depreciation and amortization   | 297,406                      | 538,204              |
| Provision for doubtful debts  | 9,105                        | (86,653)             |
| Write-down of inventories   | 150,156                      | 1,199                |
| Share-based compensation  | 252,488                      | 83,573               |
| Exchange (gain) loss  | (142,343)                    | 6,805                |
| Changes in operating assets and liabilities:  |                              |                      |
| Trade accounts and bills receivable   | (3,510,465)                  | 15,205,781           |
| Inventories   | (227,766)                    | (1,394,118)          |
| Prepayments and other receivables   | (412,770)                    | 246,784              |
| Trade accounts and bills payable  | (987,292)                    | (7,814,190)          |
| Accrued expenses and other payables   | 123,459                      | (60,011)             |
| Income taxes payable  | (607,755)                    | -                    |
| Trade receivable from and payables to former subsidiaries                                 | 2,805,278                    | (1,750,618)          |
| Net cash (used in) provided by operating activities                                       | (4,318,715)                  | 2,408,923            |
| <b>Cash flows from investing activities</b>   |                              |                      |
| Purchases of property, plant and equipment and construction in progress                   | (1,213,300)                  | (4,463,598)          |
| Net cash used in investing activities   | (1,213,300)                  | (4,463,598)          |
| <b>Cash flows from financing activities</b>   |                              |                      |
| Advances from investors   | 2,032,373                    | -                    |
| Borrowings from related parties   | 1,869,782                    | 2,641,957            |
| Borrowings from unrelated parties   | 1,524,280                    | -                    |
| Net cash provided by financing activities   | 5,426,435                    | 2,641,957            |
| <b>Effect of exchange rate changes on cash and cash equivalents, and restricted cash</b>  | <b>38,102</b>                | <b>395,153</b>       |
| <b>Net (decrease) increase in cash and cash equivalents, and restricted cash</b>          | <b>(67,478)</b>              | <b>982,435</b>       |
| <b>Cash and cash equivalents, and restricted cash at the beginning of period</b>          | <b>4,686,857</b>             | <b>10,748,713</b>    |
| <b>Cash and cash equivalents, and restricted cash at the end of period</b>                | <b>\$ 4,619,379</b>          | <b>\$ 11,731,148</b> |
| <b>Non-cash transactions:</b>   |                              |                      |
| Transfer of construction in progress to property, plant and equipment                     | \$ 1,560,897                 | \$ 126,886           |

Edgar Filing: CBAK Energy Technology, Inc. - Form 10-Q

Cash paid during the period for:

|                                      |    |         |    |         |
|--------------------------------------|----|---------|----|---------|
| Income taxes                         | \$ | 607,755 | \$ | -       |
| Interest, net of amounts capitalized | \$ | -       | \$ | 176,443 |

See accompanying notes to the condensed consolidated financial statements.

F-5

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

**1. Principal Activities, Basis of Presentation and Organization**

*Principal Activities*

CBAK Energy Technology, Inc. ( CBAK or the "Company") 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. CBAK 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 will focus on the manufacture, commercialization and distribution of high power lithium ion rechargeable batteries for use in cordless power tools, light electric vehicles, hybrid electric vehicles, electric cars, electric busses, uninterruptable power supplies and other high power applications.

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

On January 10, 2017, the Company filed Articles of Merger with the Secretary of State of Nevada to effectuate a merger between the Company and the Company's newly formed, wholly owned subsidiary, CBAK Merger Sub, Inc. (the Merger Sub ). According to the Articles of Merger, effective January 16, 2017, the Merger Sub merged with and into the Company with the Company being the surviving entity (the "Merger"). As permitted by Chapter 92A.180 of Nevada Revised Statutes, the sole purpose of the Merger was to effect a change of the Company's name.

Effective January 16, 2017, the name of the Company was changed to CBAK Energy Technology, Inc. The trading symbol of the Company's common stock remains as "CBAK".

On January 16, 2017, the Board of Directors of the Company approved a change in the Company's fiscal year end from September 30 to December 31.

*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 CBAK, 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.

F-6

---

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

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

*Basis of Presentation and Organization (continued)*

Also on January 20, 2005, immediately prior to consummating the share swap transaction, BAK International executed a private placement of its common stock with unrelated investors whereby it issued an aggregate of 1,720,087 shares of common stock for gross proceeds of \$17,000,000. In conjunction with this financing, Mr. Xiangqian Li, the Chairman and Chief Executive Officer of the Company ( Mr. Li ), agreed to place 435,910 shares of the Company's common stock owned by him into an escrow account pursuant to an Escrow Agreement dated January 20, 2005 (the Escrow Agreement ). Pursuant to the Escrow Agreement, 50% of the escrowed shares were to be released to the investors in the private placement if audited net income of the Company for the fiscal year ended September 30, 2005 was not at least \$12,000,000, and the remaining 50% was to be released to investors in the private placement if audited net income of the Company for the fiscal year ended September 30, 2006 was not at least \$27,000,000. If the audited net income of the Company for the fiscal years ended September 30, 2005 and 2006 reached the above-mentioned targets, the 435,910 shares would be released to Mr. Li in the amount of 50% upon reaching the 2005 target and the remaining 50% upon reaching the 2006 target.

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

While the 217,955 escrow shares relating to the 2005 performance threshold were previously released to Mr. Li, Mr. Li executed a further undertaking on August 21, 2006 to return those shares to the escrow agent for the distribution to the relevant investors. However, such shares were not returned to the escrow agent, but, pursuant to a Delivery of Make Good Shares, Settlement and Release Agreement between the Company, BAK International and Mr. Li entered into on October 22, 2007 (the Li Settlement Agreement ), such shares were ultimately delivered to the Company as described below. Because the Company failed to satisfy the performance threshold for the fiscal year ended September 30, 2006, the remaining 217,955 escrow shares relating to the fiscal year 2006 performance threshold were released to the relevant investors. As Mr. Li has not retained any of the shares placed into escrow, and as the investors party to the Escrow Agreement are only shareholders of the Company and do not have and are not expected to have any other relationship to the Company, the Company has not recorded a compensation charge for the years ended September 30, 2005 and 2006.

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

2007 were credited and debited by \$7,955,358 respectively, as set out in the consolidated statements of changes in shareholders' equity.

In November 2007, Mr. Li delivered the 217,955 shares related to the 2005 performance threshold to BAK International pursuant to the Li Settlement Agreement; BAK International in turn delivered the shares to the Company. Such shares (other than those issued to investors pursuant to the 2008 Settlement Agreements, as described below) are now held by the Company. Upon receipt of these shares, the Company and BAK International released all claims and causes of action against Mr. Li regarding the shares, and Mr. Li released all claims and causes of action against the Company and BAK International regarding the shares. Under the terms of the Li Settlement Agreement, the Company commenced negotiations with the investors who participated in the Company's January 2005 private placement in order to achieve a complete settlement of BAK International's obligations (and the Company's obligations to the extent it has any) under the applicable agreements with such investors.

Beginning on March 13, 2008, the Company entered into settlement agreements (the "2008 Settlement Agreements") with certain investors in the January 2005 private placement. Since the other investors have never submitted any claims regarding this matter, the Company did not reach any settlement with them.

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

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

*Basis of Presentation and Organization (continued)*

Pursuant to the 2008 Settlement Agreements, the Company and the settling investors have agreed, without any admission of liability, to a settlement and mutual release from all claims relating to the January 2005 private placement, including all claims relating to the escrow shares related to the 2005 performance threshold that had been placed into escrow by Mr. Li, as well as all claims, including claims for liquidated damages relating to registration rights granted in connection with the January 2005 private placement. Under the 2008 Settlement Agreement, the Company has made settlement payments to each of the settling investors of the number of shares of the Company's common stock equivalent to 50% of the number of the escrow shares related to the 2005 performance threshold these investors had claimed; aggregate settlement payments as of June 30, 2015 amounted to 73,749 shares. Share payments to date have been made in reliance upon the exemptions from registration provided by Section 4(2) and/or other applicable provisions of the Securities Act of 1933, as amended. In accordance with the 2008 Settlement Agreements, the Company filed a registration statement covering the resale of such shares which was declared effective by the SEC on June 26, 2008.

Pursuant to the Li Settlement Agreement, the 2008 Settlement Agreements and upon the release of the 217,955 escrow shares relating to the fiscal year 2006 performance threshold to the relevant investors, neither Mr. Li or the Company have any obligations to the investors who participated in the Company's January 2005 private placement relating to the escrow shares. As of March 31, 2018, 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 have transferred 73,749 shares relating to the 2005 performance threshold to the investors who had entered the 2008 Settlement Agreements with us in fiscal year 2008, pursuant to Li Settlement Agreement and 2008 Settlement Agreements, neither Mr. Li nor the Company had any remaining obligations to those related investors who participated in the Company's January 2005 private placement relating to the escrow shares.

On August 14, 2013, Dalian BAK Trading Co., Ltd 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 CBAK Trading's articles of association and relevant PRC regulations, BAK Asia was required to contribute the capital to CBAK Trading on or before August 14, 2015. On March 7, 2017, the name of Dalian BAK Trading Co., Ltd was changed to Dalian CBAK Trading Co., Ltd (CBAK Trading). Up to the date of this report, the Company has contributed \$100,000 to CBAK Trading in cash.

On December 27, 2013, Dalian BAK Power Battery Co., Ltd was established as a wholly owned subsidiary of BAK Asia with a registered capital of \$30,000,000 (Note 19(i)). Pursuant to CBAK Power's articles of association and relevant PRC regulations, BAK Asia was required to contribute the capital to CBAK Power on or before December 27, 2015. On March 7, 2017, the name of Dalian BAK Power Battery Co., Ltd was changed to Dalian CBAK Power Battery Co., Ltd (CBAK Power). Up to the date of this report, the Company has contributed \$29,999,978 to CBAK Power through injection of a series of patents and cash of \$24,999,978.

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 December 31, 2017, 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 December 31, 2017.

F-8

---

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

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

*Basis of Presentation and Organization (continued)*

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 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.

After the disposal of BAK International Limited and its subsidiaries, namely Shenzhen BAK, Shenzhen BAK Power Battery Co., Ltd (formerly 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" ), effective on June 30, 2014, and as of December 31, 2017 and March 31, 2018, 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 CBAK Trading Co., Ltd. ( "CBAK Trading" ), a wholly owned limited company established on August 14, 2013 in the PRC; and iii) Dalian CBAK Power Battery Co., Ltd. ( "CBAK 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. BAK Tianjin had become a supplier of the Company until September 2016 when BAK Tianjin ceased production, 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.

As of the date of this report, Mr. Xiangqian Li is no longer a director of BAK International and BAK Tianjin. He remained as a director of Shenzhen BAK and BAK Battery.

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 Li held 760,557 shares at 4.4% of the Company's outstanding stock, respectively. As of March 31, 2018, Mr. Yunfei Li held 3,806,018 shares or 14.51% of the Company's outstanding stock, and Mr. Xiangqian Li held none of the Company's outstanding stock.

The Company had a working capital deficiency, accumulated deficit from recurring net losses and short-term debt obligations as of December 31, 2017 and March 31, 2018. These factors raise substantial doubts about the Company's

ability to continue as a going concern.

In June and July 2015, the Company received advances of approximately \$9.8 million from potential investors. 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. 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. 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.

F-9

---

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

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

*Basis of Presentation and Organization (continued)*

In June 2016, the Company received further advances in the aggregate of \$2.9 million from Mr. Jiping Zhou and Mr. Dawei Li. These advances were unsecured, non-interest bearing and repayable on demand. On July 8, 2018, the Company received further advances of \$2.6 million from Mr. Jiping Zhou. On July 28, 2016, the Company entered into securities purchase agreements with Mr. Jiping Zhou and Mr. Dawei Li to issue and sell an aggregate of 2,206,640 shares of common stock of the Company, at \$2.5 per share, for an aggregate consideration of approximately \$5.52 million. On August 17, 2016, the Company issued these shares to the investors.

On February 17, 2017, the Company signed investment agreements with eight investors (including Mr. Yunfei Li, the Company's CEO, and seven of the Company's existing shareholders) whereby the investors agreed to subscribe new shares of the Company totaling \$10 million. Pursuant to the investment agreements, in January 2017 the 8 investors paid the Company a total of \$2.06 million as down payments. Mr. Yunfei Li agrees to subscribe new shares of the Company totaled \$1,120,000 and made down payment of \$225,784 in January 2017. On April 1, April 21, April 26 and May 10, 2017, the Company received \$1,999,910, \$3,499,888, \$1,119,982 and \$2,985,497 from these investors, respectively. On May 31, 2017, the Company entered into a securities purchase agreement with the eight investors, pursuant to which the Company agreed to issue an aggregate of 6,403,518 shares of common stock to these investors, at a purchase price of \$1.50 per share, for an aggregate price of \$9.6 million, among which 746,018 shares issued to Mr. Yunfei Li. On June 22, 2017, the Company issued the shares to the investors.

At March 31, 2018, the Company had aggregate interest-bearing bank loans of approximately \$20.2 million, due in 2019, in addition to approximately \$113.7 million of other current liabilities.

As of March 31, 2018, the Company had unutilized committed banking facilities of \$6.2 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 banks borrowings and equity financing in the future to meet its daily cash demands, if required.

However, there can be no assurance that the Company will be successful in obtaining further financing. The Company expects that it will be able to secure more potential orders from the new energy market, especially from the electric car market. The Company believes that with the booming future market demand in high power lithium ion products, 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 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.

*Revenue Recognition*

In May 2014 the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry specific guidance. This new standard requires a company to recognize revenues when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. The FASB subsequently issued the following amendments to ASU No. 2014-09 that have the same effective date and transition date: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations; ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients; and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The Company adopted these amendments with ASU 2014-09 (collectively, the new revenue standards).

The new revenue standards became effective for the Company on January 1, 2018, and were adopted using the modified retrospective method. The adoption of the new revenue standards as of January 1, 2018 did not change the Company's revenue recognition as the majority of its revenues continue to be recognized when the customer takes control of its product. As the Company did not identify any accounting changes that impacted the amount of reported revenues with respect to its product revenues, no adjustment to retained earnings was required upon adoption.

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

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

*Revenue Recognition (continued)*

Under the new revenue standards, the Company recognizes revenues when its customer obtains control of promised goods or services, in an amount that reflects the consideration which it expects to receive in exchange for those goods. The Company recognizes revenues following the five step model prescribed under ASU No. 2014-09: (i) identify contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenues when (or as) we satisfy the performance obligation.

Revenues from product sales are recognized when the customer obtains control of the Company's product, which occurs at a point in time, typically upon delivery to the customer. The Company expenses incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that it would have recognized is one year or less or the amount is immaterial.

Revenues from product sales are recorded net of reserves established for applicable discounts and allowances that are offered within contracts with the Company's customers.

Product revenue reserves, which are classified as a reduction in product revenues, are generally characterized in the categories: discounts and returns. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable as the amount is payable to the Company's customer.

*Recently Issued Accounting Standards*

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This ASU is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2017, on a retrospective transition method to each period presented. The Company has adopted the guidance retrospectively to each period presented. The adoption does not have any material effect on the presentation of its unaudited consolidated statements of cash flows.

In October 2016, the FASB issued ASU No. 2016-16 Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU improves the accounting for the income tax consequences of intra-entity transfers of

assets other than inventory. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption is permitted. The Company adopted this guidance for the reporting period beginning January 1, 2018, which did not have a material impact on its financial statements or disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim period within those fiscal years. The Company has adopted the guidance retrospectively to each period presented. The adoption of this standard does not have a material impact on our consolidated financial statements, but resulted in restricted cash being included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The standard should be applied prospectively on or after the effective date. The Company adopted this guidance for the reporting period beginning January 1, 2018, which did not have a material impact on its financial statements or disclosures.

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

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

*Recently Issued Accounting Standards (continued)*

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company currently intends to adopt this guidance for the fiscal year beginning January 1, 2020, and does not anticipate that the adoption of this guidance will have a material impact on its financial statements or disclosures because the Company does not currently have any recorded goodwill.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in ASC 718. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. For all entities, the ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The Company adopted this guidance for the reporting period beginning January 1, 2018, which did not have a material impact on its financial statements or 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.

**2. Pledged deposits**

Pledged deposits as of December 31, 2017 and March 31, 2018 consisted of the following:

|                                 | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|---------------------------------|------------------------------------|---------------------------------|
| Pledged deposits with bank for: |                                    |                                 |
| Bills payable                   | \$ 123,116                         | \$ 1,166,272                    |
| Letters of credit               | 7,685,213                          | 7,967,747                       |
| Others*                         | 1,295,849                          | 1,343,488                       |
|                                 | \$ 9,104,178                       | \$ 10,477,507                   |

- \* On July 7, 2016, Shenzhen Huijie Purification System Engineering Co., Ltd (Shenzhen Huijie), one of the Company's contractors, filed a lawsuit against CBAK Power in the Peoples' Court of Zhuanghe City, Dalian for the failure to pay pursuant to the terms of the contract and entrusted part of the project of the contract to a third party without their prior consent. The plaintiff sought a total amount of \$1,343,488 (RMB 8,430,792), including construction costs of \$1.0 million (RMB6.3 million), interest of \$32,626



(RMB0.2 million) and compensation of \$0.3 million (RMB1.9 million), which we already accrued for as of September 30, 2016. On September 7, 2016, upon the request of Shenzhen Huijie, the Court froze CBAK Power's bank deposits totaling \$1,343,488 (RMB 8,430,792) for a period of one year. Further on September 1, 2017, upon the request of Shenzhen Huijie, the Court froze the bank deposits for another one year until August 31, 2018.

F-12

---

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

**3. Trade Accounts and Bills Receivable, net**

Trade accounts and bills receivable as of December 31, 2017 and March 31, 2018 consisted of the following:

|                                       | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|---------------------------------------|------------------------------------|---------------------------------|
| Trade accounts receivable             | \$ 42,095,211                      | \$ 36,767,530                   |
| Less: Allowance for doubtful accounts | (3,700,922)                        | (3,749,172)                     |
|                                       | 38,394,289                         | 33,018,358                      |
| Bills receivable                      | 19,124,323                         | 11,294,221                      |
|                                       | \$ 57,518,612                      | \$ 44,312,579                   |

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

|  | <i>March 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|--|---------------------------------|---------------------------------|
| Balance at beginning of period   | \$ 2,761,144                    | \$ 3,700,922                    |
| Provision for the period   | 38,706                          | 11,199                          |
| Reversal recoveries by cash  | (29,601)                        | (97,852)                        |
| Charged to consolidated statements of operations and comprehensive (loss) income | 9,105                           | (86,653)                        |
| Foreign exchange adjustment  | 22,446                          | 134,903                         |
| Balance at end of period   | \$ 2,792,695                    | \$ 3,749,172                    |

**4. Inventories**

Inventories as of December 31, 2017 and March 31, 2018 consisted of the following:

|                  | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|------------------|------------------------------------|---------------------------------|
| Raw materials    | \$ 1,814,704                       | \$ 2,547,462                    |
| Work in progress | 2,188,193                          | 2,453,321                       |
| Finished goods   | 5,829,508                          | 6,604,625                       |
|                  | \$ 9,832,405                       | \$ 11,605,408                   |

During the three months ended March 31, 2017 and 2018, write-downs of obsolete inventories to lower of cost or market of \$150,156 and \$1,199, respectively, were charged to cost of revenues.

**5. Prepayments and Other Receivables**

Prepayments and other receivables as of December 31, 2017 and March 31, 2018 consisted of the following:

|                             | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|-----------------------------|------------------------------------|---------------------------------|
| Value added tax recoverable | \$ 5,963,506                       | \$ 6,464,622                    |
| Prepayments to suppliers    | 706,488                            | 358,827                         |
| Deposits                    | 25,922                             | 4,955                           |
| Staff advances              | 59,942                             | 134,012                         |

Edgar Filing: CBAK Energy Technology, Inc. - Form 10-Q

|                                       |              |              |
|---------------------------------------|--------------|--------------|
| Prepaid operating expenses            | 185,690      | 141,800      |
| Others                                | 37,262       | 60,390       |
|                                       | 6,978,810    | 7,164,606    |
| Less: Allowance for doubtful accounts | (7,000)      | (7,000)      |
|                                       | \$ 6,971,810 | \$ 7,157,606 |

F-13

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

**6. Payables to Former Subsidiaries**

Payable to former subsidiaries as of December 31, 2017 and March 31, 2018 consisted of the following:

|              | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|--------------|------------------------------------|---------------------------------|
| BAK Tianjin  | \$ 282,682                         | \$ 285,443                      |
| BAK Shenzhen | 22,020,039                         | 21,036,545                      |
|              | \$ 22,302,721                      | \$ 21,321,988                   |

Balance as of December 31, 2017 and March 31, 2018 consisted of payables for purchase of inventories from BAK Tianjin and Shenzhen BAK. From time to time, the Company purchased products from these former subsidiaries that they did not produce to meet the needs of its customers.

**7. Property, Plant and Equipment, net**

Property, plant and equipment as of December 31, 2017 and March 31, 2018 consisted of the following:

|                          | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|--------------------------|------------------------------------|---------------------------------|
| Buildings                | \$ 24,979,022                      | \$ 25,897,331                   |
| Machinery and equipment  | 13,977,734                         | 14,617,841                      |
| Office equipment         | 184,014                            | 193,114                         |
| Motor vehicles           | 206,190                            | 213,771                         |
|                          | 39,346,960                         | 40,922,057                      |
| Impairment               | (1,010,216)                        | (1,047,355)                     |
| Accumulated depreciation | (3,371,234)                        | (4,034,475)                     |
| Carrying amount          | \$ 34,965,510                      | \$ 35,840,227                   |

During the three months ended March 31, 2017 and 2018, the Company incurred depreciation expense of \$291,872 and \$532,213, respectively

The Company has not yet obtained the property ownership certificates of the buildings in its Dalian manufacturing facilities with a carrying amount of \$23,670,773 and \$24,358,528 as of December 31, 2017 and March 31, 2018, respectively. The Company built its facilities on the land for which it had already obtained the related land use right. The Company has submitted applications to the Chinese government for the ownership certificates on the completed buildings located on these lands. However, the application process takes longer than the Company expected and it has not obtained the certificates as of the date of this report. However, since the Company has obtained the land use right in relation to the land, the management believe the Company has legal title to the buildings thereon albeit the lack of ownership certificates.

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 during the three months ended March 31, 2017 and 2018.

**8. Construction in Progress**

Construction in progress as of December 31, 2017 and March 31, 2018 consisted of the following:

|   | <i>December 31,<br/>2017</i> | <i>March 31,<br/>2018</i> |
|---|------------------------------|---------------------------|
| Construction in progress                                    | \$ 24,288,889                | \$ 25,950,961             |
| Prepayment for acquisition of property, plant and equipment | 740,401                      | 3,889,377                 |
| Carrying amount   | \$ 25,029,290                | \$ 29,840,338             |

Construction in progress as of December 31, 2017 and March 31, 2018 was mainly comprised of capital expenditures for the construction of the facilities and production lines of CBAK Power.

For the three months ended March 31, 2017 and 2018, the Company capitalized interest of \$358,960 and \$358,929, respectively, to the cost of construction in progress.

F-14

---

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

**9. Prepaid Land Use Rights, net**

Prepaid land use rights as of December 31, 2017 and March 31, 2018 consisted of the followings:

|                                    | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|------------------------------------|------------------------------------|---------------------------------|
| Prepaid land use rights            | \$ 8,634,993                       | \$ 8,952,443                    |
| Accumulated amortization           | (590,058)                          | (656,512)                       |
|                                    | \$ 8,044,935                       | \$ 8,295,931                    |
| Less: Classified as current assets | (172,700)                          | (179,049)                       |
|                                    | \$ 7,872,235                       | \$ 8,116,882                    |

Pursuant to a land use rights acquisition agreement dated August 10, 2014, the Company acquired the rights to use a piece of land with an area of 153,832 m<sup>2</sup> in Dalian Economic Zone for 50 years up to August 9, 2064, at a total consideration of \$8,456,966 (RMB53.1 million). Other incidental costs incurred totaled \$495,477 (RMB3.1 million).

Amortization expenses of the prepaid land use rights were \$40,778 and \$44,174 for the three months ended March 31, 2017 and 2018, respectively.

**10. Intangible Assets, net**

Intangible assets as of December 31, 2017 and March 31, 2018 consisted of the followings:

|                           | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|---------------------------|------------------------------------|---------------------------------|
| Computer software at cost | \$ 27,340                          | \$ 28,345                       |
| Accumulated amortization  | (7,291)                            | (8,267)                         |
|                           | \$ 20,049                          | \$ 20,078                       |

Amortization expenses were \$646 and \$699 for the three months ended March 31, 2017 and 2018, respectively.

**11. Trade Accounts and Bills Payable**

Trade accounts and bills payable as of December 31, 2017 and March 31, 2018 consisted of the followings:

|                                  | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|----------------------------------|------------------------------------|---------------------------------|
| Trade accounts payable           | \$ 29,805,350                      | \$ 27,794,615                   |
| Bills payable                    |                                    |                                 |
| - Bank acceptance bills (Note 1) | 34,025,080                         | 27,298,720                      |
| - Commercial acceptance bills    | 1,786,113                          | 5,196,723                       |
|                                  | \$ 65,616,543                      | \$ 60,290,058                   |

All the bills payable are of trading nature and will mature within six months to one year from the issue date.

The bank acceptance bills were pledged by:

- (i) the Company's bank deposits (Note 2); and

- (ii) \$19,047,471 and \$10,564,411 of the Company's bills receivable as of December 31, 2017 and March 31, 2018, respectively (Note 3).

F-15

---

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

## 12. Loans

### Bank loans:

Bank borrowings as of December 31, 2017 and March 31, 2018 consisted of the followings

|                           | <i>December 31, 2017</i> | <i>March 31, 2018</i> |
|---------------------------|--------------------------|-----------------------|
| Long-term bank borrowings | \$ 19,489,702            | \$ 20,206,205         |

On June 14, 2016, the Company renewed its banking facilities from Bank of Dandong for loans with a maximum amount of RMB130 million (approximately \$20.7 million), including three-year long-term loans and three-year revolving bank acceptance and letters of credit bills for the period from June 13, 2016 to June 12, 2019. The banking facilities were guaranteed by Mr. Yunfei Li ( Mr. Li ), the Company's CEO, and Ms. Qinghui Yuan, Mr. Li's wife, Mr. Xianqian Li, the Company's former CEO, Ms. Xiaoqiu Yu, the wife of the Company's former CEO, Shenzhen BAK Battery Co., Ltd., the Company's former subsidiary ( Shenzhen BAK ). Under the banking facilities, the Company borrowed various three-year term bank loans that totaled RMB126.8 million (approximately \$20.2 million), bearing fixed interest at 7.2% per annum, left facilities of RMB3.2 million (approximately \$0.5 million) for bank acceptance and letters of credit bills. Under the facilities, as of March 31, 2018, the Company borrowed a series of revolving bank acceptance totaled \$0.2 million from Bank of Dandong and bank deposit of approximately 50% was pledged against these bank acceptance bills.

On July 6, 2016, the Company obtained banking facilities from Bank of Dalian for loans with a maximum amount of RMB10 million (approximately \$1.6 million) and bank acceptance bills of RMB40 million (approximately \$6.4 million) to July 5, 2017. The banking facilities were guaranteed by Mr. Li, the Company's CEO, and Ms. Qinghui Yuan, Mr. Li's wife, and Shenzhen BAK. Under the banking facilities, on July 6, 2016 the Company borrowed one year short-term loan of RMB10 million (approximately \$1.6 million), bearing a fixed interest rate at 6.525% per annum. The Company also borrowed revolving bank acceptance totaled \$6.4 million, and bank deposit of 50% was required to secure against these bank acceptance bills. The Company repaid the loan and bank acceptance bills in July and August 2017.

On November 9, 2017, the Company obtained banking facilities from China Everbright Bank Dalian Branch with a maximum amount of RMB100 million (approximately \$15.9 million) with the term expiring on November 7, 2018. The banking facilities were secured by the 100% equity in CBAK Power held by BAK Asia. As of March 31, 2018, the Company borrowed a net letter of credit of RMB97.3 million (approximately \$15.5 million) to November 5, 2018. Under the facilities, bank deposits of approximately 50% was required to secure against this letter of credit. The Company discounted this letter of credit of even date to China Everbright Bank at a rate of 4.505% .

On August 2, 2017, the Company obtained one-year term facilities from China Merchants Bank with a maximum amount of RMB100 million (approximately \$15.9 million) including revolving loans, trade finance, notes discount, and acceptance of commercial bills etc. Any amount drawn under the facilities requires security in the form of cash or banking acceptance bills receivable of at least the same amount. Under the facilities, as of March 31, 2018, the Company borrowed a series of bank acceptance bills from China Merchants Bank totaled RMB62.8 million (approximately \$10 million) and pledged \$9 million of its bills receivables and \$1 million bank deposits.



During the first quarter of 2018, the Company also obtained banking facilities from Bank of Dandong with bank acceptance bills of RMB10 million (approximately \$1.6 million) for a term until June 28, 2018. The banking facilities were pledged by its bills receivables totaled \$1.6 million. Under the facilities, as of March 31, 2018, the Company borrowed bank acceptance totaled \$1.6 million.

The facilities were also secured by the Company's assets with the following carrying amounts:

|                                  | <i>December 31, 2017</i> | <i>March 31, 2018</i> |
|----------------------------------|--------------------------|-----------------------|
| Pledged deposits (note 2)        | \$ 7,808,329             | \$ 9,134,019          |
| Prepaid land use rights (note 9) | 8,044,935                | 8,295,931             |
| Buildings                        | 18,391,993               | 18,781,963            |
| Machinery and equipment          | 2,374,748                | 2,359,392             |
| Bills receivable (note 3)        | 19,047,471               | 10,564,411            |
|                                  | \$ 55,667,476            | \$ 49,135,716         |

As of March 31, 2018, the Company had unutilized committed banking facilities of \$6.2 million.

During the three months ended March 31, 2017 and 2018, interest of \$358,960 and \$530,456, respectively, was incurred on the Company's bank borrowings.

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

**12. Loans (continued)**

**Other Short-term Loans**

Other short-term loans as of December 31, 2017 and March 31, 2018 consisted of the following:

|   | <i>Note</i> | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|---|-------------|------------------------------------|---------------------------------|
| Advance from related parties  |             |                                    |                                 |
| Tianjin BAK New Energy Research Institute Co., Ltd ( Tianjin New Energy ) | (a)         | \$ 11,493,437                      | \$ 14,465,652                   |
| Mr. Xiangqian Li, the Company s Former CEO                                | (b)         | 100,000                            | 100,000                         |
| Mr. Yunfei Li, the Company s CEO  | (c)         | -                                  | 127,484                         |
| Shareholders  | (d)         | 2,151,860                          | 2,230,969                       |
|   |             | 13,745,297                         | 16,924,105                      |
| Advances from unrelated third party                                       |             |                                    |                                 |
| Mr. Wenwu Yu  | (e)         | 155,215                            | 160,921                         |
| Mr. Mingzhe Li  | (e)         | 44,269                             | 45,896                          |
| Ms. Longqian Peng   | (e)         | 691,669                            | 717,097                         |
|   |             | 891,153                            | 923,914                         |
|   |             | \$ 14,636,450                      | \$ 17,848,019                   |

- (a) The Company received advances from Tianjin New Energy, a related company under the control of Mr. Xiangqian Li, the Company s former CEO, which was unsecured, non-interest bearing and repayable on demand. On November 1, 2016, Mr. Xiangqian Li ceased to be a shareholder but remained as a general manager of Tianjin New Energy.
- (b) Advances from Mr. Xiangqian Li, the Company s former CEO, was unsecured, non-interest bearing and repayable on demand.
- (c) Advances from Mr. Yunfei Li, the Company s CEO, was unsecured, non-interest bearing and repayable on demand.
- (d) The refundable deposits paid by certain shareholders in relation to share purchase (note 1) were unsecured, non-interest bearing and repayable on demand.
- (e) Advances from unrelated third parties were unsecured, non-interest bearing and repayable on demand.

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

**13. Accrued Expenses and Other Payables**

Accrued expenses and other payables as of December 31, 2017 and March 31, 2018 consisted of the following:

|                                   | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|-----------------------------------|------------------------------------|---------------------------------|
| Construction costs payable        | \$ 1,405,651                       | \$ 1,289,488                    |
| Equipment purchase payable        | 8,241,844                          | 8,209,071                       |
| Liquidated damages (note a)       | 1,210,119                          | 1,210,119                       |
| Accrued staff costs               | 1,804,546                          | 2,319,240                       |
| Compensation costs (note 20 (ii)) | 116,989                            | 121,290                         |
| Customer deposits                 | 270,923                            | 41,353                          |
| Other payables and accruals       | 1,158,875                          | 911,562                         |
|                                   | \$ 14,208,947                      | \$ 14,102,123                   |

- (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 December 31, 2017 and March 31, 2018, 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 the Company's 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 December 31, 2017 and March 31, 2018, 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.

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**  
(Unaudited)  
(In US\$ except for number of shares)

**14. Deferred Government Grants**

Deferred government grants as of December 31, 2017 and March 31, 2018 consist of the following:

|                         | <i>December 31,</i> | <i>March 31,</i> |
|-------------------------|---------------------|------------------|
|                         | <i>2017</i>         | <i>2018</i>      |
| Total government grants | \$ 4,864,131        | \$ 5,003,554     |
| Less: Current portion   | (152,003)           | (157,591)        |
| Non-current portion     | \$ 4,712,128        | \$ 4,845,963     |

In September 2013, the Management Committee of Dalian Economic Zone Management Committee (the Management Committee ) provided a subsidy of RMB150 million to finance the costs incurred in moving our facilities to Dalian, including the loss of sales while the new facilities were being constructed. For the year ended September 30, 2015, the Company recognized \$23,103,427 as income after offset of the related removal expenditures of \$1,004,027. No such income or offset was recognized in the three months ended March 31, 2017 and 2018.

On October 17, 2014, the Company received a subsidy of RMB46,150,000 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 was operated 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 offset government grants of \$35,890 and \$38,880 for the three months ended March 31, 2017 and 2018, respectively, against depreciation expenses of the Dalian facilities.

**15. Product Warranty Provision**

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 limited cover covers a period of six to twelve months for battery cells, a period of twelve to twenty seven months for battery modules for light electric vehicles (LEV) such as electric bicycles, and a period of three years to eight years (or 120,000 or 200,000 km if reached sooner) for battery modules for electric vehicles (EV). 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.

**16. 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 expenses consisted of:

|                 | <i>Three months ended March 31,</i> |             |
|-----------------|-------------------------------------|-------------|
|                 | <i>2017</i>                         | <i>2018</i> |
| PRC income tax: |                                     |             |
| Current         | \$ -                                | \$ -        |
| Deferred        | -                                   | -           |
|                 | \$ -                                | \$ -        |

### **United States Tax**

CBAK is a Delaware corporation that is subject to U.S. corporate income tax on its taxable income at a rate of up to 21% for taxable years beginning after December 31, 2017 and U.S. corporate income tax on its taxable income of up to 35% for prior tax years. The U.S. Tax Reform signed into law on December 22, 2017 significantly modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time transition tax on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings. Taxpayers may elect to pay the one-time transition tax over eight years, or in a single lump sum.

The U.S. Tax Reform also includes provisions for a new tax on GILTI effective for tax years of foreign corporations beginning after December 31, 2017. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of controlled foreign corporations ( CFCs ), subject to the possible use of foreign tax credits and a deduction equal to 50 percent to offset the income tax liability, subject to some limitations.

F-19

---

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

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

The Company's management is still evaluating the effect of the U.S. Tax Reform on CBAK. Management may update its judgment of that effect based on its continuing evaluation and on future regulations or guidance issued by the U.S. Department of the Treasury, and specific actions the Company may take in the future.

To the extent that portions of CBAK's U.S. taxable income, such as Subpart F income or GILTI, are determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may be able to claim foreign tax credits to offset its U.S. income tax liabilities. If dividends that CBAK receives from its subsidiaries are determined to be from sources outside of the U.S., subject to certain limitations, CBAK will generally not be required to pay U.S. corporate income tax on those dividends. Any liabilities for U.S. corporate income tax will be accrued in the Company's consolidated statements of comprehensive income and estimated tax payments will be made when required by U.S. law.

No provision for income taxes in the United States or elsewhere has been made as CBAK had no taxable income for the three months ended March 31, 2017 and 2018.

**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 months ended March 31, 2017 and 2018 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 months ended March 31, 2017 and 2018.

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

|   | Three months ended March 31, |                |
|---|------------------------------|----------------|
|   | 2017                         | 2018           |
| Loss before income taxes  | \$ (2,068,216)               | \$ (2,567,833) |
| United States federal corporate income tax rate                                 | 35%                          | 21%            |
| Income tax credit computed at United States statutory corporate income tax rate | (723,876)                    | (539,245)      |
| Reconciling items:  |                              |                |
| Rate differential for PRC earnings  | 161,427                      | (86,779)       |
| Non-deductible expenses   | 70,523                       | 66,086         |
| Share based payments  | 88,371                       | 17,550         |
| Valuation allowance on deferred tax assets                                      | 403,555                      | 542,388        |
| Income tax expenses   | \$ -                         | \$ -           |





**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

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

*(a) 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 December 31, 2017 and March 31, 2018 are presented below:

|  | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|--|------------------------------------|---------------------------------|
| <b>Deferred tax assets</b>                   |                                    |                                 |
| Trade accounts receivable                    | \$ 1,098,183                       | \$ 1,047,926                    |
| Inventories                                  | 1,772,444                          | 1,837,908                       |
| Property, plant and equipment                | 781,227                            | 1,179,631                       |
| Provision for product warranty               | 569,958                            | 592,457                         |
| Net operating loss carried forward           | 25,892,299                         | 25,998,576                      |
| Valuation allowance                          | (30,114,111)                       | (30,656,498)                    |
| Deferred tax assets, non-current             | \$ -                               | \$ -                            |
| <b>Deferred tax liabilities, non-current</b> | \$ -                               | \$ -                            |

As of December 31, 2017 and March 31, 2018, the Company's U.S. entity had net operating loss carry forwards of \$103,580,741, of which \$102,293 available to reduce future taxable income which will expire in various years through 2035 and \$103,478,448 available to offset capital gains recognized in the succeeding 5 tax years and the Company's PRC subsidiaries had net operating loss carry forwards of \$16,561,373 and \$16,986,481, respectively, which will expire in various years through 2022. 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.

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.

The impact of an uncertain income tax positions on the income tax return must be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

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

The significant uncertain tax position arose from the subsidies granted by the local government for the Company's PRC subsidiary, which may be modified or challenged by the central government or the tax authority. A reconciliation of January 1, 2018 through March 31, 2018 amount of unrecognized tax benefits excluding interest and penalties ("Gross UTB") is as follows:

|   | Gross UTB    | Surcharge | Net UTB      |
|---|--------------|-----------|--------------|
| Balance as of January 1, 2018                                 | \$ 7,537,273 | \$ -      | \$ 7,537,273 |
| Increase in unrecognized tax benefits taken in current period | 277,094      | -         | 277,094      |
| Balance as of March 31, 2018                                  | \$ 7,814,367 | \$ -      | \$ 7,814,367 |

As of December 31, 2017 and March 31, 2018, the Company had not accrued any interest and penalties related to unrecognized tax benefits.

**17. Share-based Compensation**

*Restricted Shares*

Restricted shares granted on June 30, 2015

On June 12, 2015, the Board of Director approved the CBAK Energy Technology, 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 ended March 31, 2018). The Company recognizes the share-based compensation expenses on a graded-vesting method.

The Company recorded non-cash share-based compensation expense of \$99,834 for three months ended March 31, 2017, in respect of the restricted shares granted on June 30, 2015, of which \$81,749, \$11,575 and \$6,510 were allocated to general and administrative expenses, research and development expenses and sales and marketing expenses, respectively.

The Company recorded non-cash share-based compensation expense of \$17,160 for three months ended March 31, 2018, in respect of the restricted shares granted on June 30, 2015, of which \$14,051, \$1,990 and \$1,119 were allocated to general and administrative expenses, research and development expenses and sales and marketing expenses, respectively.

As of March 31, 2018, non-vested restricted shares granted on June 30, 2015 are as follows:

|   |        |
|---|--------|
| Non-vested shares as of January 1, 2018 | 55,000 |
| Granted                                 | -      |

|  |          |
|--|----------|
| Vested                                 | (55,000) |
| Forfeited                              | -        |
| Non-vested shares as of March 31, 2018 | -        |

As of March 31, 2018, there was no unrecognized stock-based compensation associated with the above restricted shares. As of March 31, 2018, 268,333 vested shares were to be issued.

F-22

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

**17. Share-based Compensation** (continued)

Restricted shares granted on April 19, 2016

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. There are three types of vesting schedules. First, if the number of restricted shares granted is below 3,000, the shares will vest annually in 2 equal installments over a two year period with the first vesting on June 30, 2017. Second, if the number of restricted shares granted is larger than or equal to 3,000 and is below 10,000, the shares will vest annually in 3 equal installments over a three year period with the first vesting on June 30, 2017. Third, if the number of restricted shares granted is above or equal to 10,000, the shares will vest semi-annually in 6 equal installments over a three year period with the first vesting on December 31, 2016. The fair value of these restricted shares was \$2.68 per share on April 19, 2016. The Company recognizes the share-based compensation expenses over the vesting period (or the requisite service period) on a graded-vesting method.

The Company recorded non-cash share-based compensation expense of \$152,654 for the three months ended March 31, 2017, in respect of the restricted shares granted on April 19, 2016 of which \$115,712, \$19,845, \$9,464 and \$7,633 were allocated to general and administrative expenses, research and development expenses, sales and marketing expenses and cost of revenues, respectively.

The Company recorded non-cash share-based compensation expense of \$66,413 for the three months ended March 31, 2018, in respect of the restricted shares granted on April 19, 2016 of which \$50,341, \$8,634, \$4,118 and \$3,320 were allocated to general and administrative expenses, research and development expenses, sales and marketing expenses and cost of revenues, respectively.

As of March 31, 2018, non-vested restricted shares granted on April 19, 2016 are as follows:

|   |         |
|---|---------|
| Non-vested shares as of January 1, 2018 | 255,500 |
| Granted                                 | -       |
| Vested                                  | -       |
| Forfeited                               | -       |
| Non-vested shares as of March 31, 2018  | 255,500 |

As of March 31, 2018, there was unrecognized stock-based compensation of \$174,248 associated with the above restricted shares. As of December 31, 2017, 56,332 vested shares were to be 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 months ended March 31, 2017 and 2018.

**18. Loss Per Share**

The following is the calculation of loss per share:

|  | <i>Three months ended March 31,</i> |                |
|--|-------------------------------------|----------------|
|  | <i>2017</i>                         | <i>2018</i>    |
| Net loss   | \$ (2,068,216)                      | \$ (2,567,833) |
| Weighted average shares used in basic and diluted computation (note) | 19,856,778                          | 26,502,086     |
| Loss per share   | \$ (0.10)                           | \$ (0.10)      |

Note: Including 55,000 and 324,665 vested restricted shares granted pursuant to the 2015 Plan that were not yet issued for the three months ended March 31, 2017 and 2018, respectively.  
For the three months ended March 31, 2017 and 2018, 653,500 and 255,500 unvested restricted shares were anti-dilutive and excluded from shares used in the diluted computation.

F-23

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

**19. 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 and payable, other receivables, balances with former subsidiaries, other short-term loans, short-term and long-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.

**20. Commitments and Contingencies**

*(i) Capital Commitments*

As of December 31, 2017 and March 31, 2018, the Company had the following contracted capital commitments:

|  | <i>December 31,</i><br><i>2017</i> | <i>March 31,</i><br><i>2018</i> |
|--|------------------------------------|---------------------------------|
| For construction of buildings                                    | \$ 2,053,489                       | \$ 3,802,209                    |
| For purchases of equipment                                       | -                                  | 6,630,360                       |
| Capital injection to CBAK Power and CBAK Trading <sup>Note</sup> | 400,000                            | 400,000                         |
|  | \$ 2,453,489                       | \$ 10,832,569                   |

Note: Initially, BAK Asia was required to pay the remaining capital within two years, of the date of issuance of the subsidiary's business license according to PRC registration capital management rules. According to the revised PRC Companies Law which became effective on March 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. On April and May 2017, Dalian BAK Power received \$9,495,974 injected from BAK Asia.



**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

**20. Commitments and Contingencies (continued)**

*(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.

On July 7, 2016, Shenzhen Huijie Purification System Engineering Co., Ltd ( Shenzhen Huijie ), one of the Company's contractors, filed a lawsuit against CBAK Power in the Peoples' Court of Zhuanghe City, Dalian, for the failure to pay pursuant to the terms of the contract and entrusted part of the project of the contract to a third party without their prior consent. The plaintiff sought a total amount of \$1,343,488 (RMB 8,430,792), including construction costs of \$1.0 million (RMB6.3 million, which the Company already accrued for at June 30, 2016), interest of \$32,626 (RMB0.2 million) and compensation of \$0.3 million (RMB1.9 million). On September 7, 2016, upon the request of Shenzhen Huijie for property preservation, the Court of Zhuanghe froze CBAK Power's bank deposits totaling \$1,343,488 (RMB 8,430,792) for a period of one year. Further on September 1, 2017, upon the request of Shenzhen Huijie, the Court of Zhuanghe froze the bank deposits for another one year until August 31, 2018. On June 30, 2017, according to the trial of first instance, the Court of Zhuanghe ruled that CBAK Power should pay the remaining contract amount of RMB6,135,860 (approximately \$1.0 million) claimed by Shenzhen Huijie as well as other expenses incurred including deferred interest, discounted charge on bills payable, litigation fee and property preservation fee totaled \$0.1 million, the Company has accrued for these amounts as of December 31, 2017. On July 24, 2017, CBAK Power filed an appellate petition to the Intermediate Peoples' Court of Dalian ( Court of Dalian ) challenging the lower court's judgement rendered on June 30, 2017. On November 17, 2017, the Court of Dalian rescind the original judgement and remand the case to the Court of Zhuanghe for retrial.

In late February 2018, CBAK Power received a notice from Court of Zhuanghe that Shenzhen Huijie filed another lawsuit against CBAK Power for the failure to perform pursuant to the terms of a fire-control contract. The plaintiff sought a total amount of RMB244,942 (\$39,033), including construction costs of RMB238,735(\$38,044) and interest of RMB6,207 (\$989), the Company has accrued for these amounts as of March 31, 2018.

In May 2017, CBAK Power filed a lawsuit in the Court of Zhuanghe against Pingxiang Anyuan Tourism Bus Manufacturing Co., Ltd., ( Anyuan Bus ) one of CBAK Power's customers, for failure to pay pursuant to the terms of the sales contract. CBAK Power sought a total amount of RMB18,279,858, including goods amount of RMB17,428,000 (\$2,777,238) and interest of RMB851,858 (\$135,748). On December 19, 2017, the Court of Zhuanghe determined that Anyuan Bus should pay the goods amount of RMB17,428,000 and the interest until the goods amount was paid off, and a litigation fee of RMB131,480. The trial went into effect in February 2018 and is currently in the execution phase. As of December 31, 2017 and March 31, 2018, the Company had made a full provision against the receivable from Anyuan Bus of RMB 17,428,000 (\$2,678,758).





**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

## 21. Concentrations and Credit Risk

### (a) Concentrations

The Company had the following customers that individually comprised 10% or more of net revenue for the three months ended March 31, 2017 and 2018 as follows:

|            |    | Three months ended March 31, |        |              |        |
|------------|----|------------------------------|--------|--------------|--------|
|            |    | 2017                         |        | 2018         |        |
| Customer A | \$ | *                            | *      | \$ 1,162,051 | 35.08% |
| Customer B |    | *                            | *      | 693,347      | 20.93% |
| Customer C |    | *                            | *      | 383,773      | 11.58% |
| Customer D |    | *                            | *      | 374,213      | 11.30% |
| Customer E |    | 3,110,679                    | 83.71% | *            | *      |

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

The Company had the following customers that individually comprised 10% or more of accounts receivable as of December 31, 2017 and March 31, 2018 as follows:

|            | <i>December 31, 2017</i> |            |        | <i>March 31, 2018</i> |            |       |
|------------|--------------------------|------------|--------|-----------------------|------------|-------|
| Customer F | \$                       | 23,835,201 | 62.08% | \$                    | 24,711,459 | 74.8% |
| Customer G |                          | 4,855,518  | 12.65% |                       | 3,870,731  | 11.7% |
| Customer H |                          | 4,664,285  | 12.15% |                       | *          | *     |

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

For the three months ended March 31, 2017 and 2018, the Company recorded the following transactions:

|                                 |    | Three months ended March 31, |        |
|---------------------------------|----|------------------------------|--------|
|                                 |    | 2017                         | 2018   |
| Purchase of inventories from    |    |                              |        |
| BAK Tianjin                     | \$ | -                            | \$ 480 |
| Shenzhen BAK                    |    | 2,362,444                    | -      |
| Zhengzhou BAK Battery Co., Ltd* |    | 12,457                       | -      |
| Sales of finished goods to      |    |                              |        |

|  |        |          |
|--|--------|----------|
| BAK Tianjin                            | 26,546 | 10,080   |
| Shenzhen BAK                           | 60,797 | -        |
| Zhengzhou BAK Battery Co., Ltd*     \$ | 13,648 | \$     - |

\*Mr. Xiangqian Li, the former CEO, is a director of this company.

*(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 December 31, 2017 and March 31, 2018, substantially all of the Company's cash and cash equivalents were held by major financial institutions located in the PRC, which management believes are of high credit quality.

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.

F-26

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three months ended March 31, 2017 and 2018**

(Unaudited)

(In US\$ except for number of shares)

**22. Segment Information**

The Company used to engage in one business segment, the manufacture, commercialization and distribution of a wide variety of standard and customized lithium ion rechargeable batteries for use in a wide array of applications. The Company manufactured five types of Li-ion rechargeable batteries: aluminum-case cell, battery pack, cylindrical cell, lithium polymer cell and high-power lithium battery cell. The Company's products are sold to packing plants operated by third parties primarily for use in mobile phones and other electronic devices.

After the disposal of BAK International and its subsidiaries (see Note 1), the Company focused on producing high-power lithium battery cells. Net revenues for the three months ended March 31, 2017 and 2018 were as follows:

***Net revenues by product:***

|                                       | <i>Three months ended March 31,</i> |              |
|---------------------------------------|-------------------------------------|--------------|
|                                       | <i>2017</i>                         | <i>2018</i>  |
| High power lithium batteries used in: |                                     |              |
| Electric vehicles                     | \$ 3,257,772                        | \$ 65,362    |
| Light electric vehicles               | 141,360                             | 1,508        |
| Uninterruptable supplies              | 317,012                             | 3,245,927    |
| Total                                 | \$ 3,716,144                        | \$ 3,312,797 |

***Net revenues by geographic area:***

|                | <i>Three months ended March 31,</i> |              |
|----------------|-------------------------------------|--------------|
|                | <i>2017</i>                         | <i>2018</i>  |
| Mainland China | \$ 3,407,323                        | 2,823,575    |
| Europe         | 121,468                             | 104,231      |
| PRC Taiwan     | 84,811                              | 324          |
| Israel         | 102,542                             | 383,772      |
| Others         | -                                   | 895          |
| Total          | \$ 3,716,144                        | \$ 3,312,797 |

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

**23. Subsequent Events**

On May 4, 2018, a newly incorporated subsidiary, CBAK New Energy (Suzhou) Co., Ltd (CBAK Suzhou), was established in Suzhou, Jiangsu Province, China. 80% shares of CBAK Suzhou are held by CBAK Power and the remaining 20% shares are held by the key management of CBAK Suzhou. CBAK Suzhou is expected to be engaged in the manufacture of high power battery packs.

## 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

Statements contained in this report include "forward-looking statements" within the meaning of such term in 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 December 31, 2017, 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 CBAK Energy Technology, Inc., a Nevada corporation, and its consolidated subsidiaries;

BAK Asia are to our Hong Kong subsidiary, China BAK Asia Holdings Limited;

CBAK Trading are to our PRC subsidiary, Dalian CBAK Trading Co., Ltd.;

CBAK Power are to our PRC subsidiary, Dalian CBAK 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.

On January 10, 2017, the Company filed Articles of Merger with the Secretary of State of Nevada to effectuate a merger between the Company and the Company's newly formed, wholly owned subsidiary, CBAK Merger Sub, Inc. (the "Merger Sub"). According to the Articles of Merger, effective January 16, 2017, the Merger Sub merged with and into the Company with the Company being the surviving entity (the "Merger").

As permitted by Chapter 92A.180 of Nevada Revised Statutes, the sole purpose of the Merger was to effect a change of the Company's name. Upon the effectiveness of the filing of Articles of Merger with the Secretary of State of Nevada, which is January 16, 2017, the Company's Articles of Incorporation were deemed amended to reflect the change in the Company's corporate name.

On March 7, 2017, the names of our subsidiaries Dalian BAK Power Battery Co., Ltd and Dalian BAK Trading Co., Ltd., were changed to Dalian CBAK Power Battery Co., Ltd and Dalian CBAK Trading Co., Ltd, respectively.

## Overview

Our Dalian manufacturing facilities began its partial commercial operations in July 2015. We are now 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 other manufacturers until our Dalian manufacturing facility can fulfill our customers' needs, if necessary.

We generated revenues of \$3.3 million and \$3.7 million for the three months ended March 31, 2018 and 2017, respectively. We had a net loss of \$2.6 million and \$2.1 million in the three months ended March 31, 2018 and 2017 respectively. As of March 31, 2018, we had an accumulated deficit of \$166.0 million and net liabilities of \$0.2 million. We had a working capital deficiency and accumulated deficit from recurring net losses and short-term debt obligations maturing in less than one year as of March 31, 2018.

On June 14, 2016, we renewed our banking facilities from Bank of Dandong for loans with a maximum amount of RMB130 million (approximately \$20.7 million), including three-year long-term loans and three-year revolving bank acceptance and letters of credit bills for the period from June 13, 2016 to June 12, 2019. The banking facilities were guaranteed by Mr. Yunfei Li ( Mr. Li ), our CEO, and Ms. Qinghui Yuan, Mr. Li's wife, Mr. Xianqian Li, our former CEO, Ms. Xiaoqiu Yu, the wife of our former CEO, Shenzhen BAK Battery Co., Ltd., our former subsidiary ( Shenzhen BAK ). The facilities were also secured by part of our Dalian site's prepaid land use rights, buildings, construction in progress, machinery and equipment and pledged deposits. Under the banking facilities, as of March 31, 2018, we borrowed various three-year term bank loans that totaled RMB126.8 million (approximately \$20.2 million), bearing fixed interest at 7.2% per annum. We also borrowed a series of revolving bank acceptance totaling \$0.2 million from Bank of Dandong under the credit facilities, and bank deposit of 50% was required to secure against these bank acceptance bills.

On August 2, 2017, we obtained one-year term facilities from China Merchants Bank with a maximum amount of RMB100 million (approximately \$15.9 million) including revolving loans, trade finance, notes discount and acceptance of commercial bills etc. Any amount drawn under the facilities requires security in the form of cash or banking acceptance bills receivable of at least the same amount. Under the facilities, as of March 31, 2018, we borrowed a series of bank acceptance bills from China Merchants Bank totaling RMB62.8 million (approximately \$10.0 million) and pledged \$9 million of our bills receivables and \$1 million bank deposits.

On November 9, 2017, we obtained banking facilities from China Everbright Bank Dalian Branch with a maximum amount of RMB100 million (approximately \$15.9 million) with the term expiring on November 7, 2018. The banking facilities were secured by the 100% equity in CBAK Power held by BAK Asia. As of March 31, 2018, the Company

borrowed a net letter of credit of RMB97.3 million (approximately \$15.5 million) to November 5, 2018. Under the facilities, bank deposits of approximately 50% were required to secure against this letter of credit. We discounted this letter of credit of even date to China Everbright Bank at a rate of 4.505% .

During the first quarter of 2018, we also obtained banking facilities from Bank of Dandong with bank acceptance bills of RMB10 million (approximately \$1.6 million) for a term until June 28, 2018. The banking facilities were pledged by \$1.6 million of our bills receivables.



As of March 31, 2018, we had unutilized committed banking facilities of \$6.2 million.

In June 2016, we received advances in the aggregate of \$2.9 million from Mr. Jiping Zhou and Mr. Dawei Li. These advances were unsecured, non-interest bearing and repayable on demand. On July 8, 2016, we received further advances of \$2.6 million from Mr. Jiping Zhou. On July 28, 2016, to convert these advances into equity interests in our Company, we entered into securities purchase agreements with Mr. Jiping Zhou and Mr. Dawei Li to issue and sell an aggregate of 2,206,640 shares of our common stock, at \$2.5 per share, for an aggregate consideration of approximately \$5.52 million. On August 17, 2016, we issued these shares to the investors.

On February 17, 2017, we signed a letter of understanding with each of eight individual investors, who are also our current shareholders, including our CEO, Mr. Yunfei Li, whereby these shareholders agreed in principle to subscribe for new shares of our common stock totaling \$10 million. The issue price will be determined with reference to the market price prior to the issuance of new shares. In January 2017, the shareholders paid us a total of \$2.1 million as refundable deposits, among which, Mr. Yunfei Li agreed to subscribe new shares totaling \$1.12 million and pay a refundable deposit of \$0.2 million. In April and May 2017, we received cash of \$9.6 million from these shareholders. On May 31, 2017, we entered into a securities purchase agreement with these investors, pursuant to which we agreed to issue an aggregate of 6,403,518 shares of common stock, par value \$0.001 per share to these investors, at a purchase price of \$1.50 per share, for an aggregate price of \$9.6 million, including 746,018 shares were issued to Mr. Yunfei Li, our CEO. On June 22, 2017, we issued the shares to the investors. The issuance of the shares to the investors was made in reliance on the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended, for the offer and sale of securities not involving a public offering, and Regulation S promulgated thereunder.

In the meanwhile, due to the growing environmental pollution problem, the Chinese government is currently providing vigorous support to the new energy facilities and vehicles. It is expected that we will be able to secure more potential orders from the new energy market, especially from the electric car market. We believe with the booming market demand in high power lithium ion products, we can continue as a going concern and return to profitability.

To promote the development of new energy electric vehicles, in April 2015, the central government of China issued Notice of Financial Support Policies for the Promotion of New Energy Vehicles in 2016-2020, which regulated favorable government subsidies for the new energy electric vehicles for years from 2016 to 2020. It led to the explosive growth in the production and selling of new electric vehicles in 2015. According to the policy, it regulates a certain subsidy standard for various types of electric vehicles, in connection with the endurance mileage, battery pack energy density, energy consumption level, etc. It also regulates that the local government should provide subsidy not more than 50% on behalf of the national standard. According to the subsidy policy for 2017, the subsidy standard for passenger electric vehicles is RMB20,000 to RMB44,000 based on the endurance mileage; and the subsidy standard for non-fast charge electric buses and fast charge electric buses is RMB1,800/kwh and RMB3,000/kwh, respectively. According to the latest subsidy policy for 2018, the subsidy standard is decreased to RMB1,200/kwh, RMB1,200/kwh and RMB2,100/kwh for passenger electric vehicles, non-fast charge electric buses and fast charge electric buses, respectively.

In addition, on December 26, 2017, the Chinese central government issued policy for exemption of purchase tax for electric vehicles for another three years until 2020.

To respond to the market demand for high quality batteries with high energy density and strong endurance mileage, we have been constructing a new production line for the production of high capacity prismatic batteries. Each battery will be 260Ah in capacity. The production line is expected to commence production by the end of 2018 and the manufacturing capability will be about 5000 units per day.

#### **Financial Performance Highlights for the Quarter Ended March 31, 2018**

The following are some financial highlights for the quarter ended March 31, 2018:

**Net revenues:** Net revenues decreased by \$0.4 million, or 10.8%, to \$3.3 million for the three months ended March 31, 2018, from \$3.7 million for the same period in 2017.

**Gross loss:** Gross loss was \$0.3 million, representing a decrease of \$0.1 million, for the three months ended March 31, 2018, from gross loss of \$0.4 million for the same period in 2017.

**Operating loss:** Operating loss was \$2.4 million for the three months ended March 31, 2018, reflecting an increase of \$0.3 million from an operating loss of \$2.1 million for the same period in 2017.

**Net loss:** Net loss was \$2.6 million for the three months ended March 31, 2018, representing an increase of \$0.5 million from net loss of \$2.1 million for the same period in 2017.

**Fully diluted loss per share:** Fully diluted loss per share was \$0.10 for the three months ended March 31, 2018, as compared to fully diluted loss per share of \$0.10 for the same period in 2017.

### **Financial Statement Presentation**

**Net revenues.** The new revenue standards became effective for the Company on January 1, 2018, and were adopted using the modified retrospective method. The adoption of the new revenue standards as of January 1, 2018 did not change our revenue recognition as the majority of its revenues continue to be recognized when the customer takes control of its product. As we did not identify any accounting changes that impacted the amount of reported revenues with respect to its product revenues, no adjustment to retained earnings was required upon adoption.

Under the new revenue standards, we recognize revenues when our customer obtains control of promised goods or services, in an amount that reflects the consideration which it expects to receive in exchange for those goods. We recognize revenues following the five step model prescribed under ASU No. 2014-09: (i) identify contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenues when (or as) we satisfy the performance obligation.

Revenues from product sales are recognized when the customer obtains control of our product, which occurs at a point in time, typically upon delivery to the customer. We expenses incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that it would have recognized is one year or less or the amount is immaterial.

Revenues from product sales are recorded net of reserves established for applicable discounts and allowances that are offered within contracts with our customers.

Product revenue reserves, which are classified as a reduction in product revenues, are generally characterized in the categories: discounts and returns. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable as the amount is payable to the Company's customer.

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 and net realizable value.

**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, travel and entertainment expenses and product warranty expense. 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.

***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 PRC are subject to income tax at a 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, 2018 and 2017

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)

|   | <b>Three Months ended March 31,</b> |             | <b>Change</b> |          |
|---|-------------------------------------|-------------|---------------|----------|
|   | <b>2017</b>                         | <b>2018</b> | <b>\$</b>     | <b>%</b> |
| Net revenues                                  | \$ 3,716                            | \$ 3,313    | (403)         | -10.8%   |
| Cost of revenues                              | (4,133)                             | (3,660)     | (473)         | -11.4%   |
| Gross loss                                    | (417)                               | (347)       | 70            | 16.8%    |
| Operating expenses:                           |                                     |             |               |          |
| Research and development expenses             | 430                                 | 817         | 387           | 90.0%    |
| Sales and marketing expenses                  | 235                                 | 205         | (30)          | -12.8%   |
| General and administrative expenses           | 975                                 | 1,131       | 156           | 16.0%    |
| Provision for (Recovery of) doubtful accounts | 9                                   | (87)        | (96)          | -1066.7% |
| Total operating expenses                      | 1,649                               | 2,066       | 417           | 25.3%    |
| Operating loss                                | (2,066)                             | (2,413)     | (347)         | -16.8%   |
| Finance expenses, net                         | (3)                                 | (171)       | (168)         | -5600.0% |
| Other income, net                             | 1                                   | 16          | 15            | 1500.0%  |
| Loss before income tax                        | (2,068)                             | (2,568)     | (500)         | -24.2%   |
| Income tax expenses                           | -                                   | -           | -             |          |
| Net loss                                      | \$ (2,068)                          | \$ (2,568)  | (500)         | -24.2%   |

**Net revenues.** Net revenues were \$3.3 million for the three months ended March 31, 2018, as compared to \$3.7 million for the same period in 2017, representing a decrease of \$0.4 million, or 10.8% .

The following table sets forth the breakdown of our net revenues by end-product applications derived from high-power lithium batteries.

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

|                                       | <b>Three months ended March 31,</b> |             | <b>Change</b> |          |
|---------------------------------------|-------------------------------------|-------------|---------------|----------|
|                                       | <b>2017</b>                         | <b>2018</b> | <b>\$</b>     | <b>%</b> |
| High power lithium batteries used in: |                                     |             |               |          |
| Electric vehicles                     | \$ 3,258                            | \$ 65       | (3,193)       | -98.0%   |
| Light electric vehicles               | 141                                 | 2           | (139)         | -98.6%   |
| Uninterruptable supplies              | 317                                 | 3,246       | 2,929         | 924.0%   |
| Total                                 | \$ 3,716                            | \$ 3,313    | (403)         | -10.8%   |

Net revenues from sales of batteries for electric vehicles were \$65,000 for the three months ended March 31, 2018 as compared to \$3.3 million in the same period of 2017, representing a decrease of \$3.2 million, or 98.0% . Our major

customers placed significant orders in the last quarter of 2017, and their orders did not recur until the second quarter of 2018.

Net revenues from sales of batteries for light electric vehicles was \$2,000 for the three months ended March 31, 2018, compared to approximately \$0.1 million in the same period of 2017, representing a decrease of \$0.1 million, or 98.6%

Net revenues from sales of batteries for uninterruptable power supplies ( UPS ) was \$3.2 million in the three months ended March 31, 2018, as compared with \$0.3 million in the same period in 2017, representing an increase of \$2.9 million, or 924.0% . In the first quarter of 2018, we secured new customers for our UPS products.

**Cost of revenues.** Cost of revenues decreased to \$3.7 million for the three months ended March 31, 2018, as compared to \$4.1 million for the same period in 2017, a decrease of \$0.5 million, or 11.4% . Included in cost of revenues were write down of obsolete inventories of \$1,199 for three months ended March 31, 2018, while it was \$150,156 for the same period in 2017. We write down the inventory value whenever there is an indication that it is impaired. However, further write-down may be necessary if market conditions continue to deteriorate.

**Gross loss.** Gross loss for the three months ended March 31, 2018 was \$0.3 million, or 10.5% of net revenues as compared to gross loss of \$0.4 million, or 11.2% of net revenues, for the same period in 2017. Our new Dalian facilities commenced manufacturing activities in July 2015. Inefficiency was inevitably caused by the operation of the newly installed machinery and newly hired production staff. In particular, we need to maintain a high level of skilled production staff, in anticipation of the increased demand for our products following the release of the government subsidy policy of new energy vehicles in 2018. As a result, we incurred a gross loss in the quarter ended March 31, 2018.

**Research and development expenses.** Research and development expenses increased to approximately \$0.8 million for the three months ended March 31, 2018, as compared to approximately \$0.4 million for the same period in 2017, an increase of \$0.4 million, or 90.0% . The increase was primarily resulted from the materials and consumable expenses increased by approximately \$0.3 million. We incurred more R&D in 2018 on testing new materials with an aim to diversify our raw material supply sources and to reduce our exposure to possible price fluctuations and cut the cost. Meanwhile, we attempt to research and develop higher energy and higher quality lithium batteries to cater the market demand.

**Sales and marketing expenses.** Sales and marketing expenses decreased to approximately \$205,000 for the three months ended March 31, 2018, as compared to approximately \$235,000 for the same period in 2017, a decrease of \$30,000, or 12.8% . As a percentage of revenues, sales and marketing expenses were 6.2% and 6.3% for the three months ended March 31, 2018 and 2017, respectively.

**General and administrative expenses.** General and administrative expenses increased to \$1.1 million, or 34.1% of revenues, for the three months ended March 31, 2018, as compared to \$1.0 million, or 26.2% of revenues, for the same period in 2017, representing an increase of \$0.2 million, or 16.0% . The increase in general and administrative expenses was mainly because the professional fees increased by approximately \$0.1 million in the quarter ended March 31, 2018, as compared to the same quarter in prior year. More professional fees were incurred in 2018 in relation to our financial reporting following our change in fiscal year end.

**Operating loss.** As a result of the above, our operating loss totaled \$2.4 million for the three months ended March 31, 2018, as compared to \$2.1 million for the same period in 2017, representing an increase of \$0.3 million, or 16.8% .

**Income tax.** Income tax was nil for the three months ended March 31, 2018 and 2017.

**Net loss.** As a result of the foregoing, we had a net loss of \$2.6 million for the three months ended March 31, 2018, compared to net loss of \$2.1 million for the same period in 2017.

## **Liquidity and Capital Resources**

We have financed our liquidity requirements from short-term bank loans, other short-term loans and bills payable under bank credit agreements, advances from our related and unrelated parties, investors and issuance of capital stock.

We incurred a net loss of \$2.6 million for the three months ended March 31, 2018. As of March 31, 2018, we had cash and cash equivalents of \$1.3 million. Our total current assets were \$75.0 million and our total current liabilities were \$113.7 million, resulting in a net working capital deficiency of \$38.7 million. These factors raise substantial doubts about our ability to continue as a going concern.

As disclosed under Item 2 of PART I, BUSINESS Overview , we have obtained \$5.5 million and \$9.6 million through equity financing in calendar years 2016 and 2017, respectively, and we also have obtained banking facilities from various local banks in China. As of March 31, 2018, we had unutilized committed banking facilities of \$6.2 million.



We are currently expanding our product lines and manufacturing capacity in our Dalian plant, which require more funding to finance the expansion. 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, if required, 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 vehicle. 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 future market demand in high power lithium ion products, we can continue as a going concern and return to profitability.

The accompanying condensed consolidated financial statements have been prepared assuming we 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 our ability to continue as a going concern.

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

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

|   | <b>Three Months Ended March 31,</b> |               |
|---|-------------------------------------|---------------|
|   | <b>2017</b>                         | <b>2018</b>   |
| Net cash (used in) provided by operating activities                               | \$ (4,319)                          | \$ 2,409      |
| Net cash used in investing activities   | (1,213)                             | (4,464)       |
| Net cash provided by financing activities   | 5,426                               | 2,642         |
| Effect of exchange rate changes on cash and cash equivalents, and restricted cash | 38                                  | 395           |
| Net (decrease) increase in cash and cash equivalents, and restricted cash         | (68)                                | 982           |
| Cash and cash equivalents, and restricted cash at the beginning of period         | 4,687                               | <u>10,749</u> |
| Cash and cash equivalents, and restricted cash at the end of period               | \$ 4,619                            | \$ 11,731     |

#### ***Operating Activities***

Net cash provided by operating activities was \$2.4 million in the three months ended March 31, 2018, as compared with net cash used in operating activities of \$4.3 million in the same period in 2017. The net cash provided by operating activities was mainly attributable to a decrease of \$15.2 million for trade accounts and other receivables, partially offset by an increase in cash outflows for net loss of \$2.6 million in the three months ended March 31, 2018, an increase of \$1.4 million on inventories, settlement of trade accounts and bills payable of \$7.8 million, and \$1.8 million on settlement of trade payables to former subsidiaries.

#### ***Investing Activities***

Net cash used in investing activities was \$4.5 million for the three months ended March 31, 2018, as compared to \$1.2 million in the same period of 2017. The net cash used in investing activities comprised the purchases of property, plant and equipment and construction in progress.

**Financing Activities**

Net cash provided by financing activities was \$2.6 million in the three months ended March 31, 2018, compared to \$5.4 million during the same period in 2017. We borrowed \$2.6 million from related parties in the three months ended March 31, 2018.

As of March 31, 2018, 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 |        |
|--------------------------------------|--------------------------|--------|-----------------|--------|
| <b>Long-term credit facilities:</b>  |                          |        |                 |        |
| Bank of Dandong                      | \$                       | 20,716 | \$              | 20,407 |
| <b>Short-term credit facilities:</b> |                          |        |                 |        |
| China Merchants Bank                 | \$                       | 15,935 | \$              | 10,002 |
| <b>Other lines of credit:</b>        |                          |        |                 |        |
| Bank of Dandong                      |                          | 1,596  |                 | 1,596  |
| China Everbright Bank                |                          | 15,500 |                 | 15,500 |
|                                      |                          | 17,096 |                 | 17,096 |
| Total                                | \$                       | 53,747 | \$              | 47,505 |

**Capital Expenditures**

We incurred capital expenditures of \$4.5 million and \$1.2 million in the three months ended March 31, 2018 and 2017, respectively. Our capital expenditures were used primarily to construct our manufacturing facilities in Dalian.

We estimate that our total capital expenditures for the year ending December 31, 2018 will reach approximately \$29.1 million. Such funds will be used to construct new plants and expand new automatic manufacturing lines 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, 2018:

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

|                                | Total  | Payments Due by Period |             |             |                      |
|--------------------------------|--------|------------------------|-------------|-------------|----------------------|
|                                |        | Less than 1<br>year    | 1 - 3 years | 3 - 5 years | More than<br>5 years |
| Contractual Obligations        |        |                        |             |             |                      |
| Short-term bank loans          | \$ -   | \$ -                   | \$ -        | \$ -        | \$ -                 |
| Long-term bank loans           | 20,206 | -                      | 20,206      | -           | -                    |
| Bills payables                 | 32,495 | 32,495                 | -           | -           | -                    |
| Payable to former subsidiaries | 21,322 | 21,322                 | -           | -           | -                    |
|                                | 17,848 | 17,848                 | -           | -           | -                    |

|   |            |           |           |      |      |  |  |  |  |
|---|------------|-----------|-----------|------|------|--|--|--|--|
| Other short-term loans                            |            |           |           |      |      |  |  |  |  |
| Capital injection to Dalian CBAK Trading          | 400        | 400       | -         | -    | -    |  |  |  |  |
| Capital commitments for construction of buildings | 3,802      | 3,802     | -         | -    | -    |  |  |  |  |
| Capital commitments for purchase of equipment     | 6,630      | 6,630     | -         | -    | -    |  |  |  |  |
| Future interest payment on bank loans             | 1,770      | 1,455     | 315       | -    | -    |  |  |  |  |
| Total   | \$ 104,473 | \$ 83,952 | \$ 20,521 | \$ - | \$ - |  |  |  |  |
|   |            |           | 9         |      |      |  |  |  |  |

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, 2018.

### **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.

For a description of our critical accounting policies and estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations' Critical Accounting Policies' and Note 3 to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. For Revenue Recognition refer to Note 1 to the unaudited consolidated financial statements contained herein.

### **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 Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2018. 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 Chief Financial Officer. Based upon, and as of the date of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were ineffective as of March 31, 2018.

As we disclosed in our Annual Report on Form 10-K filed with the SEC on April 17, 2018, during our assessment of the effectiveness of internal control over financial reporting as of December 31, 2017, 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:

Mr. Wenwu Wang was appointed by the Board of Directors of the Company as the Chief Financial Officer on August 21, 2017.

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 quarter ended March 31, 2018 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.**

On July 7, 2016, Shenzhen Huijie Purification System Engineering Co., Ltd ( Shenzhen Huijie ), one of our contractors, filed a lawsuit against CBAK Power in the Peoples Court of Zhuanghe City, Dalian, for the failure to pay pursuant to the terms of the contract and entrusted part of the project of the contract to a third party without their prior consent. The plaintiff sought a total amount of \$1,343,488 (RMB 8,430,792), including construction costs of \$1.0 million (RMB6.3 million, which we already accrued for at June 30, 2016), interest of \$32,626 (RMB0.2 million) and compensation of \$0.3 million (RMB1.9 million). On September 7, 2016, upon the request of Shenzhen Huijie for property preservation, the Court of Zhuanghe froze CBAK Power's bank deposits totaling \$1,343,488 (RMB 8,430,792) for a period of one year. Further on September 1, 2017, upon the request of Shenzhen Huijie, the Court of Zhuanghe froze the bank deposits for another one year until August 31, 2018. On June 30, 2017, according to the trial of first instance, the Court of Zhuanghe ruled that CBAK Power should pay the remaining contract amount of

RMB6,135,860 (approximately \$1.0 million) claimed by Shenzhen Huijie as well as other expenses incurred including deferred interest, discounted charge on bills payable, litigation fee and property preservation fee totaled \$0.1 million, we has accrued for these amounts as of December 31, 2017. On July 24, 2017, CBAK Power filed an appellate petition to the Intermediate Peoples Court of Dalian ( Court of Dalian ) challenging the lower court s judgement rendered on June 30, 2017. On November 17, 2017, the Court of Dalian rescinded the original judgement and remanded the case to the Court of Zhuanghe for retrial.



In late February 2018, CBAK Power received a notice from Court of Zhuanghe that Shenzhen Huijie filed another lawsuit against CBAK Power for the failure to perform pursuant to the terms of a fire-control contract. The plaintiff sought a total amount of RMB244,942 (\$39,033), including construction costs of RMB238,735(\$38,044) and interest of RMB6,207 (\$989). We have accrued for these amounts as of March 31, 2018. Although we believe that the plaintiff's claims in the above lawsuits are without merit and we are vigorously defending ourselves, there is no assurance that we will be successful in the lawsuit. In the event that plaintiff prevails in the lawsuit, unfavorable court judgment could have an adverse effect on our business, financial condition and results of operations.

In May 2017, CBAK Power filed a lawsuit in the Court of Zhuanghe against Pingxiang Anyuan Tourism Bus Manufacturing Co., Ltd., ( Anyuan Bus ) one of CBAK Power's customers, for failure to pay pursuant to the terms of the sales contract. CBAK Power sought a total amount of RMB18,279,858, including goods amount of RMB17,428,000 (\$2,777,238) and interest of RMB851,858 (\$135,748). On December 19, 2017, the Court of Zhuanghe determined that Anyuan Bus should pay the goods amount of RMB17,428,000 and the interest until the goods amount was paid off, and a litigation fee of RMB131,480. Anyuan Bus did not appeal and as a result, the judgment is currently in the enforcement phase. As of December 31, 2017 and March 31, 2018, we had made a full provision against the receivable from Anyuan Bus of RMB 17,428,000 (\$2,678,758).

#### **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 December 31, 2017.

#### **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:

| <b>Exhibit No.</b> | <b>Description</b> |
|--------------------|--------------------|
|--------------------|--------------------|

|             |  |
|-------------|--|
| <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.INS     | XBRL Instance Document   |

|         |   |
|---------|---|
| 101.SCH | XBRL Taxonomy Extension Schema Document               |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |

| <b>Exhibit<br/>No.</b> | <b>Description</b> |
|------------------------|--------------------|
|------------------------|--------------------|

|         |   |
|---------|---|
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
|---------|---|

|         |  |
|---------|--|
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
|---------|--|

13

---

**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 21, 2018

**CBAK ENERGY TECHNOLOGY, INC.**

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

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