

ADVANCED BATTERY TECHNOLOGIES, INC.  
Form 10-K  
March 16, 2011

---

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

---

FORM 10-K

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

For the fiscal year ended December 31, 2010.

OR

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

Commission File No. 1-33726

ADVANCED BATTERY TECHNOLOGIES, INC,  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

22-2497491  
(I.R.S. Employer ID Number)

15 West 39th Street, Suite 14A, New York, NY 10018  
(Address of principal executive offices)

Issuer's Telephone Number, including Area Code: 212-391-2752

Securities Registered Pursuant to Section 12(b) of the Act: None  
Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 406 of the Securities  
Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes  No

Indicate by check mark disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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. (Check One)

Large accelerated filer  Accelerated filer  Non-accelerated filer  Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was sold, or the average bid and ask prices of such common equity, as of a specified date within the past 60 days.

The aggregate market value of the Registrant's common stock, \$.001 par value, held by non-affiliates as of June 30, 2010, the last business day of the Registrant's most recently completed second quarter, was \$194,925,811, based on \$3.28 per share, the closing price on that date.

As of March 16, 2011 the number of shares outstanding of the Registrant's common stock was 76,440,434 shares, \$.001 par value.

DOCUMENTS INCORPORATED BY REFERENCE: None.

FORWARD-LOOKING STATEMENTS: NO ASSURANCES INTENDED

In addition to historical information, this Annual Report contains forward-looking statements, which are generally identifiable by use of the words “believes,” “expects,” “intends,” “anticipates,” “plans to,” “estimates,” “projects,” or similar expressions. These forward-looking statements represent Management’s belief as to the future of Advanced Battery Technologies. Whether those beliefs become reality will depend on many factors that are not under Management’s control. Many risks and uncertainties exist that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled “Risk Factors.” Readers are cautioned not to place undue reliance on these forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements.

PART 1

ITEM 1. BUSINESS

Advanced Battery Technologies, Inc. is a holding company with one direct subsidiary: Cashtech Investment Limited, a British Virgin Islands corporation. Cashtech Investment Limited is, in turn, a holding company with two subsidiaries:

- Harbin ZhongQiang Power-Tech Co., Ltd. (“Harbin ZQPT”), a limited liability company organized under the laws of the Peoples Republic of China (“PRC”). Harbin ZQPT holds the government lease of the real property on which our primary battery operations are located. Harbin ZQPT also manages the assets and operations of Heilongjiang ZhongQiang Power-Tech Co., Ltd., which is also a Chinese limited liability company (“ZQ Power-Tech”) under a set of agreements between Harbin ZQPT and the registered owners of ZQ Power-Tech pursuant to which Harbin ZQPT receives all of the benefits and assumes all of the obligations of the business of ZQ Power-Tech. ZQ Power-Tech is engaged in the business of manufacturing and distributing polymer lithium-ion batteries on the property leased to Harbin ZQPT. We are in the process of transferring the assets and operations of ZQ Power-Tech to Harbin ZQPT, but have not yet obtained all of the necessary government approvals.
- Wuxi ZhongQiang Autocycle Co., Ltd., a Chinese limited liability company (“Wuxi ZQ”) that Cashtech Investment Limited acquired in May 2009. Wuxi ZQ is engaged in the business of manufacturing and distributing electric vehicles that utilize batteries manufactured by ZQ Power-Tech.

Advanced Battery Technologies also owns a 49% interest in Beyond E-Tech, Inc., a Texas corporation that distributes cellular telephones in the United States.

## Battery Operations

ZQ Power-Tech is a limited liability company that was organized under the laws of the People's Republic of China in August 2002. ZQ Power-Tech's offices and primary manufacturing facility are located in northern China, in the Province of Heilongjiang, in the Economy & High-Tech Development Zone of Shuangcheng, which is a suburb of Harbin. The location is approximately 1,000 km northeast of Beijing.

In January 2011 Harbin ZQPT acquired the assets of Shenzhen Zhongqiang New Energy Science & Technology Co., Ltd. ("Shenzhen Zhongqiang"). Shenzhen Zhongqiang was a manufacturer of lithium batteries for mobile phones and MP3 and video game consoles, whose manufacturing facility has a daily production capacity of 70,000 batteries. Shenzhen Zhongqiang's annual revenues in 2010 were approximately \$11 million. The purchase price paid by Harbin ZQPT for the Shenzhen Zhongqiang liabilities was \$20 million, of which \$13.5 million was applied to satisfy liabilities of Shenzhen Zhongqiang. Harbin ZQPT will initially operate the Shenzhen Zhongqiang facility as a separate, yet complementary, division of its battery operations, with a view toward further integration as the business develops.

The Harbin Institute of Technology is one of the leading technological institutions in Asia. Two of its engineering professors now serve on ZQ Power-Tech's Scientific Advisory Board, along with a professor of engineering at the China Engineering Academy. This close association with the Harbin Institute of Technology provides ZQ Power-Tech with a rich source of technological talent, such that ZQ Power-Tech's research staff is filled by experienced engineers, many with masters and Ph.D degrees.

ZQ Power-Tech designs, manufactures and markets rechargeable polymer lithium-ion ("PLI") batteries. PLI batteries produce a relatively high average of 3.8 volts per cell, which makes them attractive in terms of both weight and volume. Additionally, they can be manufactured in very thin configurations and with large footprints. PLI cells can be configured in almost any prismatic shape, and can be made thinner than 0.0195 inches (0.5 mm) to fill virtually any shape efficiently. This combination of power and versatility makes rechargeable PLI batteries particularly attractive for use in consumer products such as portable computers, personal digital assistants (PDA's) and cellular telephones.

ZQ Power-Tech's batteries combine high-energy chemistry with state-of-the-art polymer technology. Every battery component is solid, which means that there are no liquids that need to be contained by bulky, heavy cell housings. The result is a safe, thin, lightweight rechargeable battery with a wide operating temperature range. Similar to lithium-ion prismatic rechargeable cells, the ZQ Power-Tech polymer cells do not exhibit a memory problem. This means that they can be recharged at any state of charge, without first having to be completely discharged.

At the present time, ZQ Power-Tech produces only one finished product. This is a cordless miner's lamp equipped with a rechargeable PLI battery. ZQ Power-Tech has sold its miner's lamps to an agency of the Chinese government for several years, but recently expanded its market to private industry. In 2006 ZQ Power-Tech received an order from a Hong Kong-based mining company for 450,000 battery cells for mine lamps, to be delivered over a three year period. As a result of that order and other indications of increased demand, ZQ Power-Tech installed a production line dedicated to mine lamps. During 2010 the miner's lamp business yielded \$7,930,893 in revenue (8.2% of total revenue), a decline from 2009 when sales of miner's lamps produced 20.5% of our revenue.

All of ZQ Power-Tech's other sales and pending contracts are for battery cells, which are sold on an OEM basis as a component of a finished product. The fastest-growing market for ZQ Power-Tech's batteries has been the manufacturers of battery-powered vehicles. However, ZQ Power-Tech's current customers also include companies that use our batteries in cell phones, companies that use them in laptop computers, and a company that uses our batteries in its digital cameras. One unique market for ZQ Power-Tech's batteries opened when, in August 2007, they were successfully tested by oceanographers in deep sea drilling equipment utilized by the China National Oceanographic Institute. The range of non-vehicular uses for our vehicles is further evidenced by the \$5.7 million order we received in August 2010 from Hengmin Opto-electrical Tech Co. of Guangdong Province in China. Hengmin, which is primarily engaged in manufacturing battery assemblies and power management systems, ordered ZQ Power-Tech's 50 Ah capacity lithium-ion battery packs primarily for use in street lamps.

#### Vehicle Batteries

During the summer of 2005, ZQ Power-Tech signed a cooperation agreement with the Beijing Institute of Technology to participate in the development of an all-electric bus using ZQ Power-Tech rechargeable batteries. To enhance the potential use of that battery, ZQ Power-Tech entered into a development and supply relationship with Altair Nanotechnologies, Inc. of Reno, Nevada. During 2005 Altair supplied ZQ Power-Tech with nano-structured lithium spinel electrode materials that ZQ Power-Tech has successfully tested in its vehicle batteries. The inclusion of these nanomaterials in ZQ Power-Tech's batteries has significantly increased the power delivery and reduced the time required for recharge. ZQ Power-Tech is currently conducting research and development activities aimed at exploiting the technological advantages that the Altair nanomaterials can provide throughout ZQ Power-Tech's catalog of batteries.

The research and development activities of ZQ Power-Tech and its associates has yielded batteries for use in electric buses and electric cars that exhibit some of the highest functionality available today. Currently, the batteries we offer for plug-in electric vehicles have the following characteristics:

	Plug-in EV Bus	Plug-in Cars
Mileage per charge	137 miles	200 miles
Charge time	4-5 hours	3-4 hours
Top speed	62.5 mph	80 mph
Battery weight	2200 pounds	400 pounds
Voltage	318V	296V
Capacity	450 Ah	1540 Ah

The development of ZQ Power-Tech's vehicle battery technologies has opened the door for a variety of relationships, with the result that ZQ Power-Tech is developing a significant presence in the growing market for vehicle batteries. The initial success of this venture was marked by a \$21 million order to supply 3.7 volt PLI battery sets for electric cars manufactured by Aiyingsi Company of Taiwan. After a period of cooperative development, shipments under that order were made to Aiyingsi commencing in 2006.

During 2006 ZQ Power-Tech expanded its relationship with Aiyingsi Company to include development of the world's first "nanopowered" electric scooter. Late in the summer, the Zhong Qiang Institute of Research tested the scooter prototype and found that it could cover 28 miles at up to 18.75 mph with a single 15-minute charge. The potential market for this "alternative" vehicle is broad, including delivery services, surveillance and commuter uses. The environment-friendliness of this technology and other similar technologies used by ZQ Power-Tech were the reason stated by The Organizing Committee of China Innovative Entrepreneur Awards Organization for naming our Chairman, Fu Zhiguo, "China's Outstanding Entrepreneur" in December 2006.

More recent milestones in the growth of ZQ Power-Tech's presence in the low emissions vehicle industry have been:

Ø In July 2006 ZQ Power-Tech received its first commercial order for bus batteries, as a Chinese bus manufacturer ordered five PLI battery packages.

Ø In March 2007 ZQ Power-Tech signed a sales contract with Beijing Guoqiang Global Technology Development Co. Ltd. to supply a total of 3,000 PLI battery sets for use in electric garbage trucks that were designed for the 2008 Olympics. Shipments commenced in May 2007 and continued until February 2008. The full contract was valued at \$10,000,000.

Ø In July 2007 ZAP, a manufacturer of zero emissions vehicles located in the U.S., placed an order to pay \$5.168 million for ZQ Power-Tech batteries for use in ZAP's vehicles.

Ø In March 2008 ZQ Power-Tech announced that it had collaborated with Wuxi Angell on the development of an electric hybrid motorcycle that utilizes ZQ Power-Tech batteries. Three versions of the hybrid motorcycle were introduced to the U.S. market in February 2009.

Ø In May 2009 Cashtech Investment Limited acquired ownership of Wuxi Angell, giving ZQ Power-Tech a captive market for its batteries as well as a dynamic presence in the growing market for electric and hybrid two-wheel vehicles.

Ø In October 2009 ZQ Power-Tech entered into a one-year \$7.8 million contract to provide 48V/15Ah and 72V/50Ah polymer lithium-ion phosphate batteries to U Long Run Sheng Technology Co., Ltd., a leading distributor of power management systems to the electric vehicle industry.

#### ZQ Power-Tech: Marketing

ZQ Power-Tech has focused its marketing activities in China, with our sales continuing to be made directly by our marketing department. Although we have long-term plans to expand marketing beyond the PRC, demand remains sufficiently high within China that for the near term we intend to market domestically exclusively.

#### ZQ Power-Tech: Environmental Regulation

ZQ Power-Tech's operations produce no significant quantity of effluent or air-borne pollution. Therefore ZQ Power-Tech does not incur any significant cost as a result of the environmental regulations of the Chinese government.



ZQ Power-Tech: Intellectual Property

ZQ Power-Tech owns seven Chinese patents, which are patents on:

- A cellular phone battery pole plate.
- A polymer lithium-ion battery and its production method.
- A large capacity polymer lithium-ion battery and its production method.
- An ultra-thin polymer lithium-ion battery for a miner's lamp and its production method.
- A walkie-talkie lithium-ion battery and its production method.
- A mobile phone battery and its production method.
- A nano material lithium ion battery and its production process.

We also hold one US patent (Patent No. 6,994,737 B2), which covers a high capacity polymeric lithium-ion cell and its production method.

Since receiving its initial funding in 2003, ZQ Power Tech has consistently devoted substantial resources to the research and development activities necessary to assure that our polymer lithium-ion batteries remain the state of the art. In 2007, for example, our research and development expenses totaled \$383,871, as we developed a second-generation product line and explored the utilization of nanomaterials in our batteries. In 2008, however, the growth of demand for our products focused our attention on expansion of our facilities. Research and development expenses in 2008, therefore, were only \$4,463, as our technical personnel were dedicated to the build-out of our assembly lines with new equipment. In 2009, having completed the build-out, we renewed our focus on research and development, with an expenditure of \$348,297, followed by a research and development expenditure of \$204,567 in 2010, when our technical personnel were again partially diverted by the project of upgrading our assembly lines.

The technology utilized in producing polymer lithium-ion batteries is widely available throughout the world, and is utilized by many competitors, both great and small. ZQ Power-Tech's patents give it some competitive advantage with respect to certain products. However, the key to competitive success will be ZQ Power Tech's ability to deliver high quality products in a cost-efficient manner. This, in turn, will depend on the quality and efficiency of the assembly lines that we have been developing at our plant in Harbin.

Wuxi ZQ

In light of the rapid expansion of the market for battery-powered vehicles, in May 2009 the Company's subsidiary, Casstech Investment Limited, acquired all of the registered capital of Wuxi Angell Autocycle Co., Ltd. ("Wuxi ZQ") in exchange for three million shares of ABAT common stock. Since the acquisition, we have been engaged in integrating the operations of Wuxi ZQ with those of ZQ Power-Tech. Although each subsidiary will continue to maintain its manufacturing operations at its existing location, we are rapidly developing systems for sharing the capabilities of the two companies with respect to technical design, marketing, production and human resources.

Wuxi ZQ is located in the City of Wuxi Economic and Technology Development Zone, in Jiangsu Province, about 100 kilometers west of Shanghai. Since 2002, Wuxi ZQ has been engaged in the design, development, manufacture and marketing of electric- and hybrid-powered two wheel vehicles, as well as electric-powered agricultural transport vehicles and sport utility e-vehicles. The prices of Wuxi ZQ vehicles range from \$427 to \$3,471, with an average selling price of \$574. Wuxi ZQ markets not only complete vehicles but also components, including motors, electronic controls, meters and plastic parts. Wuxi ZQ has developed a reputation for delivering vehicles that excel in both performance and style. With low noise, easy maintenance and a stable drive, the Wuxi ZQ scooters and e-bicycles are designed to capture the opportunities presented by China's recent emphasis on reducing air pollution and the degradation of China's environment that has accompanied its rapid industrialization.



Before ABAT acquired Wuxi ZQ, Wuxi ZQ was a major customer of ZQ Power-Tech. Beginning in 2008 Wuxi ZQ and ZQ Power-Tech cooperated in the development of a series of hybrid motorcycles that are outfitted with 48V/15Ah lithium-ion batteries. A computerized control puts the motorcycle on electric-only drive at low speeds, then initiates the gas engine at higher speeds. In testing by the China North Vehicle Research Institute, the hybrid motorcycles demonstrated 35 percent lower emissions than conventional gas-powered motorcycles, 20 percent increased fuel economy, and equivalent road performance. The hybrid products were introduced at industry shows in the U.S. and Europe in early 2009.

Continuing research by ZQ Power-Tech and Wuxi ZQ has produced batteries for fully electric e-bikes and e-scooters that combine remarkable light weight with functionality adequate for most e-bike and e-scooter purposes. Currently, our medium capacity batteries demonstrate the following characteristics:

E-Bike/E-Scooter	
Mileage per charge	35 miles
Charge time	3-4 hours
Top speed	25 mph
Battery weight	6.16 pounds
Voltage	36V
Capacity	10 Ah

The combination of these state-of-the-art batteries with the design expertise of the Wuxi ZQ staff has enabled Wuxi ZQ to grow dramatically since it was acquired by Cashtech Investment Limited. Currently Wuxi ZQ has four production lines within its manufacturing facility, with the capability of expanding production in response to demand. The production lines currently manufacture 20 types of vehicles, and the full facility is capable of manufacturing 500,000 vehicles per year. Wuxi's manufacturing operation has achieved certification under ISO9001:2000 standards, as well as certification under the standards of China's industrial oversight agencies.

#### Wuxi ZQ: Marketing

Wuxi ZQ markets its electric vehicles primarily through a network of distributors in selected locations worldwide. Most of Wuxi ZQ's products carry both EEC and DOT(EPA) certification. During 2010, Wuxi ZQ recorded \$22 million in sales abroad, to complement \$27 million within China.

The worldwide distribution network for Wuxi ZQ vehicles increased substantially during 2010:

- On March 30 and 31, 2010 ZQ Power-Tech held a product promotion conference for its electric vehicles customers from both the domestic and the overseas markets. Approximately two hundred people participated in the conference, including customers from Netherlands, Chile, Canada, India, Afghanistan, and over a hundred Chinese companies.
- In April 2010, during the International Bicycle Expo in Shanghai, ZQ Power-Tech signed sales contracts totaling approximately \$1.7 million (or 2,500 electric scooters) with European customers, including customers located in Germany, Denmark and the Netherlands.

-

In May 2010 Wuxi ZQ signed an agreement with All-Power America to serve as the first U.S.-based distributor for Wuxi ZQ since the May 2009 acquisition.

- In September 2010 Menzaghi Motors of Italy placed an order for the aluminum magnesium alloy electric scooters that Wuxi ZQ recently developed to meet demand for a lighter-weight vehicle with higher mileage
- In October 2010 we signed an agreement with Kanuni Motorcycle, a well-known motorcycle producer in Turkey, under which Kanuni now sells three types of Wuxi ZQ scooters.

In addition to the distributors noted above, Wuxi ZQ's roster of distributors now includes

- Hi Motors and Ampere Vehicles Pte. Ltd. in India;
- Eco Style Di in Italy;
- DMS Motorlu Araclarsanayi Vetica in Turkey;
- Tinterparts Trading GmbH in Germany;
- Ersico Spol SRO in the Czech Republic;
- D.M.C. (DuurzaawMobiliteits) in the Netherlands;
- Floretti Europe BVBA in Belgium; and
- Autoplaza Holdings in the Philippines.

In order to present itself as a viable participant in the movement toward "green" vehicles, Wuxi ZQ participates in industry shows and fairs. Within the past year, Wuxi ZQ has exhibited at the Canton Fair and the China International Bicycle and Motor Fair, among others.

#### Wuxi ZQ: Environmental Regulation

The operations of Wuxi ZQ are governed by both national and local environmental regulations. During the period from November 2009 to February 2010, Wuxi installed an underground sewer in order to achieve compliance with a local environmental protection regulation. The total cost of the sewer project was 4,684,830 RMB (approximately \$685,000). Wuxi ZQ has not had incurred any other significant expenditures in order to comply with environmental rules.

#### Wuxi ZQ: Intellectual Property

Wuxi ZQ owns 14 patents issued by the government of China. The patents cover inventions by Wuxi ZQ in the areas of e-scooter appearance, electric bicycle appearance, water dispenser design, motor technology, and wheel design. The patents are issued for ten years, and will terminate at times from 2013 to 2017.

#### Backlog

ZQ Power Tech's backlog of sales orders totaled approximately \$44.0 million on March 11, 2011, all of which is scheduled for delivery within the current fiscal year. Wuxi ZQ's backlog of sales orders totaled approximately \$10.3 million on March 11, 2011, all of which is scheduled for delivery within the current fiscal year. On February 28, 2010, our backlog of orders totaled approximately \$49.7 million, \$44.3 million of which were orders for batteries or miners' lamps.

## Employees

Advanced Battery Technologies has 4 employees, all of whom are involved in administration in our New York office. ZQ Power-Tech and Wuxi ZQ collectively have 1,172 employees. 141 are involved in administration, 46 are involved in marketing, and 66 are involved in research and development and related technology services. The remainder are employed in production capacities. None of our employees belongs to a collective bargaining unit.

In August 2009 ZQ Power-Tech announced that it had commenced construction of an employee vocational training center within its production base in Shuangcheng, near Harbin. The training center, which is expected to be completed later in 2011, will cover 25,000 square meters, consisting of an academic center, student activity buildings and a living area. The center will be utilized as a source of skilled personnel for both ZQ Power-Tech and Wuxi ZQ, thus alleviating one of the major hurdles to expansion in both the battery and the electric vehicle industries - recruiting the necessary personnel.

## Investment in Cell Phone Distributor

In December 2008 Advanced Battery Technologies purchased a 49% equity interest in Beyond E-Tech, Inc., a corporation located in Texas that distributes cellular telephones manufactured in China to its order by Flying Technology Development Co. and Lenovo China. The purchase price for the shares was \$1.5 million cash. The purchase agreement provided that as long as Advanced Battery Technologies remains a shareholder of Beyond E-Tech, all phones sold by Beyond E-Tech would be powered by ZQ Power-Tech batteries. Although the operations of Beyond E-Tech are still in an early stage of development, Advanced Battery Technologies' management considers the investment a reasonable means of securing a dedicated customer and a potential for ancillary profits.

## ITEM 1A. RISK FACTORS

Investing in our common stock involves a significant degree of risk. You should carefully consider the risks described below together with all of the other information contained in this Report, including the financial statements and the related notes, before deciding whether to purchase any shares of our common stock. If any of the following risks occurs, our business, financial condition or operating results could materially suffer. In that event, the trading price of our common stock could decline and you may lose all or part of your investment.

### Risks Attendant to our Business Operations.

We may be unable to gain a substantial share of the market for batteries.

Our business operations are based on the marketing of rechargeable polymer lithium-ion batteries, both on an OEM basis and as components of our scooters and miner's lamps. There are many companies, large and small, involved in the market for rechargeable batteries. Some of our existing and potential competitors have longer operating histories and significantly greater financial, technical, marketing and other resources. It will be difficult for us to establish a reputation in the market so that manufacturers chose to use our batteries rather than those of our competitors. Unless we are able to expand our sales volume significantly, we will not be able to improve the efficiency of our operation.

Our business and growth will suffer if we are unable to hire and retain key personnel that are in high demand.

Our future success depends on our ability to attract and retain highly skilled engineers, technical, marketing and customer service personnel, especially qualified personnel for our operations in China. Qualified individuals are in high demand in China, and there are insufficient experienced personnel to fill the demand. Therefore we may not be able to successfully attract or retain the personnel we need to succeed.

We may not be able to adequately protect our intellectual property, which could cause us to be less competitive.

We are continuously designing and developing new technology. We rely on a combination of copyright and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Unauthorized use of our technology could damage our ability to compete effectively. In China, monitoring unauthorized use of our products is difficult and costly. In addition, intellectual property law in China is less developed than in the United States and historically China has not protected intellectual property to the same extent as it is protected in other jurisdictions, such as the United States. Any resort to litigation to enforce our intellectual property rights could result in substantial costs and diversion of our resources, and might be unsuccessful.

We may have difficulty establishing adequate management and financial controls in China and in complying with U.S. corporate governance and accounting requirements.

The People's Republic of China has only recently begun to adopt the management and financial reporting concepts and practices that investors in the United States are familiar with. We may have difficulty in hiring and retaining employees in China who have the experience necessary to implement the kind of management and financial controls that are expected of a United States public company. If we cannot establish such controls, we may experience difficulty in collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. standards.

We are also subject to the rules and regulations of the United States, including the SEC, the Sarbanes-Oxley Act of 2002 and the rules and regulations of the NASDAQ Stock Market. We expect to incur significant costs associated with our public company reporting requirements, costs associated with applicable corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the SEC and requirements in connection with the continued listing of our common stock on the NASDAQ Stock Market. If we cannot assess our internal control over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence and share value may be negatively impacted.

Since most of our assets are located in China, any dividends or proceeds from liquidation are subject to the approval of the relevant Chinese government agencies.

Our assets are predominantly located inside China. Under the laws governing Foreign-invested Entities in China, dividend distribution and liquidation are allowed but subject to special procedures under the relevant laws and rules. Any dividend payment will be subject to the decision of the board of directors and subject to foreign exchange rules governing such repatriation. Any liquidation is subject to both the relevant government agency's approval and supervision as well the foreign exchange control. This may generate additional risk for our investors in case of dividend payment or liquidation.

We have limited business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, and do not, to our knowledge, offer business liability insurance. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, we have determined that the risks of disruption and cost of the insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of our resources.

Our operations are international, and we are subject to significant political, economic, legal and other uncertainties (including, but not limited to, trade barriers and taxes that may have an adverse effect on our business and operations).

We manufacture all of our products in China and substantially all of the net book value of our total fixed assets is located there. However, we sell our products to customers outside of China as well as domestically. As a result, we may experience barriers to conducting business and trade in our targeted markets in the form of delayed customs clearances, customs duties and tariffs. In addition, we may be subject to repatriation taxes levied upon the exchange of income from local currency into foreign currency, as well as substantial taxes of profits, revenues, assets or payroll, as well as value-added tax. The markets in which we plan to operate may impose onerous and unpredictable duties, tariffs and taxes on our business and products. Any of these barriers and taxes could have an adverse effect on our finances and operations.

Environmental compliance and remediation could result in substantially increased capital requirements and operating costs.

Our operating subsidiaries, ZQ Power-Tech and Wuxi ZQ, are subject to numerous Chinese provincial and local laws and regulations relating to the protection of the environment. These laws continue to evolve and are becoming increasingly stringent. The ultimate impact of complying with such laws and regulations is not always clearly known or determinable because regulations under some of these laws have not yet been promulgated or are undergoing revision. Our consolidated business and operating results could be materially and adversely affected if ZQ Power-Tech or Wuxi ZQ were required to increase expenditures to comply with any new environmental regulations affecting its operations.

We may be required to raise additional financing by issuing new securities with terms or rights superior to those of our shares of common stock, which could adversely affect the market price of our shares of common stock.

We may require additional financing to fund future operations, develop and exploit existing and new products and to expand into new markets. We may not be able to obtain financing on favorable terms, if at all. If we raise additional funds by issuing equity securities, the percentage ownership of our current shareholders will be reduced, and the holders of the new equity securities may have rights superior to those of the holders of shares of common stock, which could adversely affect the market price and the voting power of shares of our common stock. If we raise additional funds by issuing debt securities, the holders of these debt securities would similarly have some rights senior to those of the holders of shares of common stock, and the terms of these debt securities could impose restrictions on operations and create a significant interest expense for us.



The NASDAQ Capital Market may delist our common stock from trading on its exchange, which could limit investors' ability to effect transactions in our common stock and subject us to additional trading restrictions.

Our common stock is listed on the NASDAQ Capital Market. We cannot assure you that our common stock will continue to be listed on the NASDAQ Capital Market in the future. If the NASDAQ Capital Market delists our common stock from trading on its exchange, we could face significant material adverse consequences including:

- a limited availability of market quotations for our common stock;
- a limited amount of news and analyst coverage for our company; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

We do not intend to pay any cash dividends on our common stock in the foreseeable future and, therefore, any return on your investment in our common stock must come from increases in the fair market value and trading price of our common stock.

We have never paid a cash dividend on our common stock. We do not intend to pay cash dividends on our common stock in the foreseeable future and, therefore, any return on your investment in our common stock must come from increases in the fair market value and trading price of our common stock.

Our international operations require us to comply with a number of U.S. and international regulations.

We need to comply with a number of international regulations in countries outside of the United States. In addition, we must comply with the Foreign Corrupt Practices Act, or FCPA, which prohibits U.S. companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity or obtain any unfair advantage. Any failure by us to adopt appropriate compliance procedures and ensure that our employees and agents comply with the FCPA and applicable laws and regulations in foreign jurisdictions could result in substantial penalties or restrictions on our ability to conduct business in certain foreign jurisdictions. The U.S. Department of The Treasury's Office of Foreign Asset Control, or OFAC, administers and enforces economic and trade sanctions against targeted foreign countries, entities and individuals based on U.S. foreign policy and national security goals. As a result, we are restricted from entering into transactions with certain targeted foreign countries, entities and individuals except as permitted by OFAC which may reduce our future growth.

All of our assets are located in China and changes in the political and economic policies of the PRC government could have a significant impact upon what business we may be able to conduct in the PRC and accordingly on the results of our operations and financial condition.

Our business operations may be adversely affected by the current and future political environment in the PRC. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under the current government leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

Our operations are subject to PRC laws and regulations that are sometimes vague and uncertain. Any changes in such PRC laws and regulations, or the interpretations thereof, may have a material and adverse effect on our business.

Our principal operating subsidiary, ZQ Power-Tech, is considered a foreign invested enterprise under PRC laws, and as a result is required to comply with PRC laws and regulations. Unlike the common law system prevalent in the United States, decided legal cases have little value as precedent in China. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business and the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy or criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our businesses. If the relevant authorities find us in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation.

The scope of our business license in China is limited, and we may not expand or continue our business without government approval and renewal, respectively.

Our principal operating subsidiary, ZQ Power-Tech, is a wholly foreign-owned enterprise organized under PRC law, commonly known as a WFOE. A WFOE can only conduct business within its approved business scope, which ultimately appears on its business license. In order for us to expand our business beyond the scope of our license, we will be required to enter into a negotiation with the authorities for the approval to expand the scope of our business. We cannot assure you that ZQ Power-Tech will be able to obtain the necessary government approval for any change or expansion of our business scope.

Our business development, future performance, strategic plans, and other objectives would be hindered if we lost the services of our Chairman.

Fu Zhiguo is the Chief Executive Officer of Advanced Battery Technologies and of our operating subsidiaries, ZQ Power-Tech and Wuxi ZQ. Mr. Fu is responsible for strategizing not only our business plan but also the means of financing it. If Mr. Fu were to leave Advanced Battery Technologies or become unable to fulfill his responsibilities, our business would be imperiled. At the very least, there would be a delay in the development of Advanced Battery Technologies until a suitable replacement for Mr. Fu could be retained.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## ITEM 2. PROPERTIES

The People's Republic of China has given ZQ Power-Tech a lease to use the 72,000 square meter campus in Harbin, China where ZQ Power-Tech's offices and manufacturing facility are located. The campus is 24 km from the nearest airport. The nearest port is Da Lian. The lease expires in September 2043. ZQ Power-Tech is not required to pay any rental for the property as long as it continues to utilize the property for manufacturing. In November 2003 ZQ Power-Tech received ISO9001 certification pertaining to Manufacturing and Quality Control Approval.

From 2004 to 2006 ZQ Power-Tech carried on a program of expanding its production facility. In 2006 it completed Building A and Building B, 30,000 square feet of manufacturing capacity, which in 2008 ZQ Power-Tech upgraded, so that those two buildings reached a production capacity of approximately \$50,000,000 per year, depending on the specific products being produced. Due to the rapid increase in the Company's sales, between 2008 and 2009 Management developed additional assembly lines in Building C and Building D. Then in 2010 management upgraded the production lines in Buildings A and B to again increase productivity. As a result of these investments in our manufacturing facilities, our Harbin facility now has a annual capacity to produce approximately \$100 million in batteries.

The acquisition of the assets of Shenzhen Zhongqiang has again increased our production capacity. The Shenzhen Zhongqiang facility is lease by Harbin ZQ from an unaffiliated party. It has a production area of 6,400 square meters.

In January 2011 Cashtech Investment Limited entered into a Land Use Right and Buildings Purchase Contract with Dongguan Qianshun Hardware, Inc. The Contract contemplates that Cashtech will purchase from Dongguan Qianshun Hardware, Inc. the land and buildings at 3 Middle, Qingxi Town, Dongguan City, Guangdong Province, China. The buildings consist of four industrial facilities with a total of 36,468 square meters of floor space, an office building with 5,246 square meters, three dormitories with a total of 14,710 square meters, and a power supply facility, and the associated land use right. The purchase price will be 176 million Renminbi (approximately \$26 million). The parties are currently securing the necessary government approvals for the transfer. Harbin ZQ expects to initiate battery production activities in the Dongguan City facility in the second half of 2011.

Wuxi ZQ utilizes a 80,000 square meter manufacturing facility in the City of Wuxi with a production floor space of 47,837 square meters. The research and development division occupies 3,000 square meters. Most of the remainder is dedicated to inventory, sales and administration. Wuxi ZQ purchased the right to use the land on which the facilities are located from the Government of China for periods ending in 2053 and 2057.

## ITEM 3. LEGAL PROCEEDINGS

Susquehanna Financial Group, LLLP v. Advanced Battery Technologies, Inc. In September 2008 Susquehanna Financial Group, LLLP ("SFG") commenced this action in the Court of Common Pleas of Montgomery County, Pennsylvania (Civil Action No. 08-25505). SFG alleges that it was party to two contracts with the Company, pursuant to which SFG alleges that it was entitled to serve as financial advisor with respect to any offering of securities by the Company completed prior to March 2009. SFG alleges that the Company failed to afford SFG the opportunity to serve as financial advisor in connection with the private placement by the Company in August 2008. SFG alleges that it is entitled to damages in the amount of \$1,359,872.46 and a warrant to purchase 81,882 share of the Company's common stock exercisable at \$8.00 per share. The Company has answered the Complaint, and has denied that SFG was entitled to serve as financial advisor in connection with the August 2008 private placement by reason of the fact that SFG had terminated its agreements with the Company, had waived any continuing rights under the contracts, and had acted in bad faith in connection with the services it undertook to perform for the Company.



Sui-Yang Huang v. Advanced Battery Technologies, Inc. In September 2009, Sui-Yang Huang commenced this action in the United States District Court for the Southern District of New York (Civil Action: 09 Civ. 8297). The plaintiff was the Company's Chief Technological Officer at that time. The complaint alleged that ABAT breached its employment contract with Mr. Huang, and demanded between \$1.25 million and \$5 million in damages. In May 2010 the Court dismissed the action on grounds of forum non conveniens, subject to the willingness of a forum in China to accept jurisdiction. In August 2010 Mr. Huang brought a portion of his action in China, but the Chinese Court refused to accept jurisdiction and sent the matter back to the U.S. federal courts. In March 2011 the United States District Court denied Mr. Huang's request to reinstate the case in New York, finding that jurisdiction remains available in China. The Company believes that the alleged claim has no merit and has answered the complaint denying liability.

ITEM 4. RESERVED.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### (a) Market Information

Since February 26, 2008, the Company's common stock has been listed on the NASDAQ Capital Market under the symbol "ABAT." Set forth below are the high and low sales for each of the eight quarters in the past two fiscal years.

Quarter Ending	Bid High	Low
March 31, 2009	\$ 3.04	\$ 1.68
June 30, 2009	\$ 4.39	\$ 2.10
September 30, 2009	\$ 5.04	\$ 3.57
December 31, 2009	\$ 4.26	\$ 3.08
March 31, 2010	\$ 4.80	\$ 3.25
June 30, 2010	\$ 3.98	\$ 3.02
September 30, 2010	\$ 3.88	\$ 3.06
December 31, 2010	\$ 4.34	\$ 3.55

## (b) Shareholders

Our shareholders list contains the names of 398 registered stockholders of record of the Company's Common Stock.

## (c) Dividends

The Company has never paid or declared any cash dividends on its Common Stock and does not foresee doing so in the foreseeable future. The Company intends to retain any future earnings for the operation and expansion of the business. Any decision as to future payment of dividends will depend on the available earnings, the capital requirements of the Company, its general financial condition and other factors deemed pertinent by the Board of Directors.

## (d) Securities Authorized for Issuance Under Equity Compensation Plans

The information set forth in the table below regarding equity compensation plans (which include individual compensation arrangements) was determined as of December 31, 2010.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	0	N.A.	5,000,000(1)
Equity compensation plans not approved by security holders	340,000	\$2.66	891,000(2)
<b>Total</b>	<b>340,000</b>	<b>\$2.66</b>	<b>5,891,000</b>

(1) In 2009 the Board of Directors and shareholders approved the 2009 Equity Incentive Plan. The Plan authorized the Board to issue up to 5,000,000 common shares during the ten year period of the Plan. The shares may be awarded to employees or directors of Advanced Battery Technologies or its subsidiaries as well as to consultants to those entities. The shares may be awarded as outright grants or in the form of options or restricted stock. 5,000,000 shares remain available for issuance under the plan.

(2) In 2006 the Board of Directors adopted the 2006 Equity Incentive Plan. The Plan authorized the Board to issue up to 8,000,000 common shares during the ten year period of the Plan. The shares may be awarded to employees or directors of Advanced Battery Technologies or its subsidiaries as well as to consultants to those entities. The shares may be awarded as outright grants or in the form of options, restricted stock or performance shares. 891,000 shares remain available for issuance under the plan.

## (e) Sale of Unregistered Securities

Advanced Battery did not effect any unregistered sales of equity securities during the 4th quarter of 2010.

## (f) Repurchase of Equity Securities

Advanced Battery did not repurchase any shares of its common stock during the 4th quarter of 2010.

## ITEM 6. SELECTED FINANCIAL DATA

	2010	2009	2008	2007	2006
Revenue	\$ 97,128,668	\$ 63,561,925	\$ 45,172,111	\$ 31,897,618	\$ 16,329,340
Net Income/(Loss)	\$ 36,726,318	\$ 21,802,052	\$ 20,186,932	\$ 10,205,406	\$ 8,040,752
Net Income/(Loss) Per Share –					
Diluted	\$ 0.48	\$ 0.36	\$ 0.39	\$ 0.21	\$ 0.17
Total Assets	\$ 227,598,470	\$ 157,826,354	\$ 77,752,231	\$ 38,723,210	\$ 22,521,982
Long-Term Debt	\$ 14,775,650	\$ 20,247,182	\$ 3,429,992	\$ 411,263	\$ 384,413
Shareholders' Equity	\$ 205,202,089	\$ 132,374,846	\$ 73,024,603	\$ 36,476,504	\$ 23,206,350
Shareholders' Equity Per Share	\$ 2.69	\$ 1.93	\$ 1.33	\$ 0.73	\$ 0.47

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Results of Operations

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

The following tables present certain consolidated statement of operations information. Financial information is presented for the year ended December 31, 2010 and 2009 respectively.

	For the Year Ended December 31,			
	2010	2009	Change Amount	Change %
Revenues	\$ 97,128,668	\$ 63,561,925	\$ 33,566,743	52.8 %
Cost of Goods Sold	51,231,779	35,169,478	16,062,301	45.7 %
Gross Profit	45,896,889	28,392,447	17,504,442	61.7 %
Operating Expenses	8,047,425	10,238,470	(2,191,045 )	(21.4 )%
Operating Income	37,849,464	18,153,977	19,695,487	108.5 %
Net Income	\$ 36,726,318	\$ 21,802,052	\$ 14,924,266	68.5 %

## Revenues

We had total revenues of \$97,128,668 for 2010, an increase of \$33,566,743 or 52.8%, compared to \$63,561,925 for 2009. The increase in revenues was primarily due to the contribution of sales from the electric vehicle business, which the Company acquired on May 4, 2009. Sales of electric vehicles for 2010 were \$49,199,892 as compared to \$20,329,895 for 2009. The increase is attributable to (a) the fact that 2009 results include only the period from May 4, 2009 to December 31, 2009, and (b) efforts by our management to make Wuxi ZQ more responsive to the requirements of its distributors.

Our battery sales increased by 10.9% to \$47,928,776 in 2010. The entire increase, however, is attributable to the medium capacity batteries that we manufacture for use in electric scooters, electric bicycles, power tools, miners' lamps, searchlights, etc. Sales of our medium capacity batteries more than doubled from 2009 to 2010. That sales revenue, moreover, does not take into account deliveries of batteries from ZQ Power-Tech to Wuxi ZQ for use in the vehicles sold by Wuxi ZQ, an intra-company market for our medium capacity batteries that is also expanding as Wuxi ZQ sales grow.

In the years ended December 31, 2010 and 2009, the contribution of batteries in our four sales categories as well as the contribution of electric vehicles to our total revenues was:

	For the Year Ended December 31,							
	2010		% (of total revenue)		2009		% (of total revenue)	
Small Capacity Battery	\$	4,643,922	4.8	%	\$	4,040,333	6.4	%
Medium Capacity Battery		19,699,077	20.3	%		9,923,292	15.6	%
Large Capacity Battery		15,654,884	16.1	%		16,257,711	25.6	%
Miner's Lamp		7,930,893	8.2	%		13,010,694	20.5	%
Electric Vehicle		49,199,892	50.7	%		20,329,895	32.0	%
Total	\$	97,128,668	100.0	%	\$	63,561,925	100.0	%

As shown above, sales of the small capacity batteries that were our primary products in our early years remain flat, as they have been for several years. Sales of miner's lamps fell by 39%, as our primary contract, a three year contract with a Hong Kong-based mining company made in 2006, expired, and we have been unable to replace the sales. Sales of the large capacity batteries (used for electric sanitation vehicles, stationary applications, and other large scale battery applications) fell by 3.7% from 2009 to 2010, primarily due to slower-than-expected growth from our customers. We nevertheless expect growth in the large capacity battery portion of our business in coming years, as China's strong recent emphasis on environmentally sound growth should result in expansion of the electric vehicle industry in China.

The reorientation of our business from its earlier focus on small capacity batteries to the current situation in which medium and large capacity batteries dominate our battery revenues has been beneficial to our overall business. The margins that we are able to achieve in selling larger capacity batteries are significantly greater than the margins we achieve in selling smaller capacity batteries, due primarily to the relative amount of competition in the different markets. Our challenge in integrating the Shenzhen Zhongqiang operations into our battery operation during 2011 will be to maintain our margins, as the primary market for the current products of Shenzhen Zhongqiang has been smaller applications.





## Gross Profit

Our cost of goods sold consists of the cost of raw materials, labor costs and production overhead. In 2010, although our revenue increased by 52.8%, our cost of goods sold increased by only 45.7%, from \$35,169,478 to \$51,231,779, compared to 2009. The increased profitability of our sales is mainly attributable to improved production efficiencies in our electric vehicles operations. Since the acquisition of Wuxi ZQ in May 2009, we have worked aggressively to control production costs at Wuxi ZQ. As a result, the gross margin on our sales of electric vehicles was over 40%, compared to 33% in 2009. The overall result was an increase in our gross margin from 44.7% in 2009 to 47.3% in 2010.

## Operating expenses

The Company's operating expenses decreased by 21.4%, from \$10,238,470 in 2009 to \$8,047,425 in 2010. The decrease occurred despite the fact that operating expenses in ZQ Power-Tech, our main battery production base in China, increased by approximately \$1.0 million during 2010, primarily due to increased depreciation as a result of the upgrade to our production facilities completed in 2010. The primary reasons for the year-to-year decrease in operating expenses were:

- In 2009 we incurred a special \$1 million advertising expense, as we utilized a prepaid advertising credit held by Wuxi ZQ to introduce its new management to the electric vehicle market.
  - Our research and development expenses fell by \$143,730 from 2009 to 2010.
- In 2009 we recorded an allowance of \$208,876 for doubtful accounts and inventory wastage; in 2010 we reversed \$296,241 of allowance items, as we succeeded in collecting accounts that had been written off.
- The implementation of our management principles at Wuxi ZQ led to reduced expenses throughout the administration of that company.
- Our stock-based compensation expense decreased by \$326,090 from 2009 to 2010, as a fully-vested grant of options to our senior management in 2009 was not replicated in 2010.

Included in our general and administrative expense during the year ended December 31, 2010 was \$1,715,939 attributable to amortization of the market value of stock that we granted to employees or consultants. This non-cash expense resulted from our use of stock during our early years to incentivize key individuals. The market value of the stock at the time it was issued is being amortized over the term of the employee's or consultant's services, thus:

In the case of employees, the period of amortization is based on a vesting schedule included in the employees' contracts. The average vesting period for the employees is 3.09 years.

In the case of consultants, the period of amortization is based on the term of the consulting contracts, although amortization will be accelerated if the consulting relationship ceases. Again, to date, the consultants who received stock have remained involved in the Company's affairs, so there has been no acceleration of amortization.

At December 31, 2010 there remained \$5,608,066 in unamortized stock compensation on the Company's books. The amortization of this sum will contribute to our operating expenses as described above.

During 2010 we recorded \$6,091,426 in other income (expenses). The primary components of this charge were:

- \$362,348 in net interest income, mainly due to the \$160,000 in interest income that we earned by lending \$1.6 million to a non-related company, Harbin Jinhuida Investment Consulting Limited, at an interest rate of 10% per annum, and the interest on our cash deposited in Chinese banks. During 2009 we had a net interest expense of \$210,322 primarily arising from the bank debt on the books of Wuxi ZQ when we acquired it, which we satisfied in full during the first quarter of 2010
- an investment loss of \$8,197 related to our investment in Beyond E-Tech, Inc., a Texas corporation that distributes cellular telephones in the United States. The acquisition has been recorded as an "investment in unconsolidated entity" on our balance sheet, and our participation in that business is accounted for through the equity method.
- income of \$5,471,531 related to the change in the fair value of our outstanding common stock purchase warrants.

This last item arises from the Company's issuance of warrants in 2008 and 2009 in conjunction with the issuance of common shares or convertible preferred stock. The warrants permit the investors to buy additional common shares at the prices specified in the warrant agreements. Because the Company may be required to repurchase the warrants at their fair value in certain circumstances, the fair value of the warrants has been recorded as a liability on our balance sheet. At the end of each quarter, we re-calculate the fair value of the warrants using the Black-Scholes model, and record any increase or decrease in that fair value as other income or other expense. During 2010, the reduction in the fair value of the warrants was \$5,471,531, which was recognized as other income for the year ended December 31, 2010. During 2009, the reduction in the fair value of the warrants was \$666,839, which was likewise recognized as other income. If in future quarters the warrants increase in value (e.g. by reason of an increase in the market price of our common stock), we will record an other expense equal to the amount of the increase.

During 2009 the primary component of our other income (expense) was a gain on bargain purchase of \$8,645,276 arising from our acquisition of Wuxi ZQ in May 2009. Wuxi ZQ had been experiencing operational difficulties and lacked sufficient working capital for successful business operations. The former owners decided to sell their company at a loss and turn their attention to other business matters. Advanced Battery, on the other hand, believed that its management talent and the synergies between its business and that of Wuxi ZQ could convert Wuxi ZQ into a profitable operation. As a result of these factors, we were able to purchase Wuxi ZQ for \$3,000,000 plus 3,000,000 common shares with a market value of \$9,870,000. However, after we reviewed the assets and obtained audited historical values, we determined that the fair value of the net assets of Wuxi ZQ was \$21,515,276. We recorded the \$8,645,276 difference as "other income." The two principal components of the Wuxi ZQ assets, whose total value was recorded at \$40,273,510, were:

- Fixed assets, recorded at \$21,908,014. We determined the value of fixed assets by reference to their replacement cost, based upon the market price of comparable assets with similar residual lives.
- Intangible assets, recorded at \$13,378,643, consisting of land use rights valued at \$12,046,892\_ and patents, goodwill and marketing network, valued at \$1,331,751. We determined the value of the land use rights by reference to the market value of comparable rights. We determined the value of Wuxi ZQ's patents, goodwill and marketing network by calculating the present value of the future revenue expected to be produced from use of those assets.



Our determination that we had realized a gain of \$8.6 million as a result of the acquisition of Wuxi ZQ, therefore, was based on management's assessment of the fair value of the assets acquired. That assessment involved decisions regarding comparability of assets and assumptions about the future revenue that Wuxi ZQ would realize. Those decisions and assumptions were merely based on management's best estimates, and the conclusions could be materially inaccurate or different if the assessment were performed by different parties using the same assumptions.

The Company's revenue less expenses produced pre-tax income of \$43,940,891 for the year ended December 31, 2010, an increase of \$16,348,653 from 2009. In 2010, our domestic (U.S.) pre-tax income was \$ 880,057, including \$5,471,531 other income due to change in fair value of warrants). We incurred no domestic tax on that income. Our foreign (China) pre-tax income was \$43,060,834. The standard corporate tax rate in China is 25%. However, as a result of Chinese tax laws that reward foreign investment in China, through 2010 ZQ Power-Tech was entitled to a 50% tax abatement, which resulted in an effective corporate tax rate of approximately 12.5%. The income tax accrued as a result of our operations, therefore, was \$7,650,861. In addition, we accrued a deferred income tax benefit of \$436,288 in 2010 because of the reduction in our bad debt and inventory allowance. After taxes of \$7,214,573 realized in the year ended December 31 2010, our net income was \$ 36,726,318 (\$.48 per share, fully diluted), representing a 68.5% increase over 2009 when we earned \$.36 per share fully diluted.

Our business operates primarily in Chinese Renminbi, but we report our results in our SEC filings in U.S. Dollars. The conversion of our accounts from RMB to Dollars results in translation adjustments. While our net income is added to the retained earnings on our balance sheet; the translation adjustments are added to a line item on our balance sheet labeled "accumulated other comprehensive income," since they are more reflective of changes in the relative values of U.S. and Chinese currencies than of the success of our business. During 2010 the effect of converting our financial results to Dollars was to add \$5,913,487 to our accumulated other comprehensive income. During 2009, the translation adjustment reduced our accumulated other comprehensive income by \$511,770.

#### Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

The following tables present certain consolidated statement of operations information. Financial information is presented for the year ended December 31, 2009 and 2008 respectively.

	For the Year Ended December 31,			
	2009	2008	Amount	Change
				%
Revenues	\$ 63,561,925	\$ 45,172,111	\$ 18,389,814	40.7 %
Cost of Goods Sold	35,169,478	23,122,610	\$ 12,046,868	52.1 %
Gross Profit	28,392,447	22,049,501	\$ 6,342,946	28.8 %
Operating Expenses	10,238,470	3,267,872	\$ 6,970,598	213.3 %
Operating Income	18,153,977	18,781,629	\$ (627,652 )	-3.3 %
Net Income	\$ 21,802,052	\$ 20,186,932	\$ 1,615,120	8.0 %

## Revenues

We had total revenues of \$63,561,925 for 2009, an increase of \$18,389,814 or 40.7%, compared to \$45,172,111 for 2008. The increase in revenues was primarily due to the contribution of sales from the electric vehicle business, which the Company acquired on May 4, 2009. Sales of electric vehicles after May 4, 2009 totaled \$20,329,895. At the same time, the acquisition of Wuxi ZQ resulted in flat year-to-year results in battery sales, since Wuxi Angell had been a major customer of our battery business. Sales of batteries to Wuxi ZQ are included in our 2008 financial results and excluded from our 2009 financial results, since we acquired ownership of Wuxi ZQ in May 2009. If sales to Wuxi ZQ are excluded from our 2008 results, our revenue from battery sales increased by around \$4.7 million in 2009, compared to 2008.

The growth in our battery business has been accompanied by a reorientation in the relative importance of different battery sizes. When we first entered the battery business in 2003 and during the following years, the bulk of our sales were small capacity batteries, primarily those used in consumer electronic devices. Our growth, however, has been propelled by customers for our medium capacity batteries (used for electric scooters, electric bicycles, power tools, miners' lamps, searchlights, etc.) and large capacity batteries (used for electric sanitation vehicles, stationary applications, and other large scale battery applications). In the years ended December 31, 2009 and 2008, the contribution of batteries in these categories as well as the contribution of electric vehicles to our total revenues was:

	Year ended December 31, 2009			Year ended December 31, 2008		
	Amount (US\$)	% (of total revenue)		Amount (US\$)	% (of total revenue)	
Small Capacity Battery	4,040,333	6.36	%	4,727,223	10.5	%
Medium Capacity Battery	9,923,292	15.61	%	16,200,079	35.9	%
Large Capacity Battery	16,257,711	25.58	%	13,467,511	29.8	%
Miner's Lamp	13,010,694	20.47	%	10,777,298	23.8	%
Electric Vehicle	20,329,895	31.98	%	0	0	%
Total	63,561,925	100.00	%	45,172,111	100	%

The increase in the portion of our revenue attributable to medium and large capacity batteries has been beneficial to our overall business. The margins that we are able to achieve in selling larger capacity batteries are significantly greater than the margins we achieve in selling smaller capacity batteries, due primarily to the relative amount of competition in the different markets.

At February 28, 2010 we had a backlog of around \$49.7 million for delivery throughout the next 12 months, including a battery backlog of approximately \$44.3 million.

## Gross Profit.

Our cost of goods sold consists of the cost of raw materials, labor costs and production overhead. In 2009, our revenue increased by 40.7% and our cost of goods sold increased by 52.1%, from \$23,122,610 to \$35,169,478, compared to 2008. This disparate growth in cost of sales is mainly attributable to the higher proportion of sales from lower margin products, i.e. electrical vehicles. After eliminating intercompany sales, during May 4 to the end of 2009 Wuxi ZQ achieved only approximately 33.2% gross margin, while our battery manufacturing operations achieved a 49.9% gross

margin. The overall result of combining our operations with those of Wuxi ZQ was a reduction in our gross margin from 48.8% in 2008 to 44.7% in 2009.

## Operating expenses

The Company's operating expenses increased by 213.3%, from \$3,267,872 in 2008 to \$10,238,470 in 2009. The increase was almost entirely attributable to the expansion of our operations, as operating expenses in Heilongjiang ZQPT, our main battery production base in China, increased by only \$0.20 million during 2009. The primary reasons for the year-to-year increase in operating expenses were:

- \$4.2 million in selling and administration expenses incurred by Wuxi ZQ after the acquisition on May 4 2009. Wuxi ZQ's selling expenses included \$1,000,000 advertising expense.
- Higher administration expenses related to our US office, including salaries, legal fees and marketing expenses related to our equity offerings and annual meeting, as well as expenses attributable to ongoing litigation.
  - An increase of \$1,326,177 in noncash stock and option compensation amortization expense in 2009

During 2009 we recorded \$9,438,261 in other income (expenses). Some components of this charge were:

- \$210,321 in net interest expenses;
- an investment loss of \$17,401 related to our investment in Beyond E-Tech, Inc.;
- an income of \$666,839 related to the change in the fair value of our outstanding common stock purchase warrants, the reasons for which are set forth above; and.
- a \$8,645,276 gain on bargain purchase arising from our acquisition of Wuxi ZQ, the reasons for which are set forth above.

In 2009, we realized \$210,321 in net interest expenses. We incurred \$501,096 in interest expense on Wuxi ZQ's short-term bank loan. This was partially offset by \$160,000 in interest income that we earned by lending \$1.6 million to a non-related company, Harbin Jinhuida Investment Consulting Limited, at an interest rate of 10% per annum, and by interest on our cash deposited in Chinese banks. Additionally, in 2009 we recognized \$336,906 income due to the forgiveness of interest payable on our existing short-term loans after negotiation with banks who loaned to Wuxi ZQ before acquisition.

Furthermore, for the year ended December 31 2009, we recognized a \$17,401 investment loss from our 49% equity investment in Beyond E-Tech, Inc., a Texas corporation recently organized to engage in distributing cellular telephones in the United States. The acquisition has been recorded as an "investment in unconsolidated entity" on our balance sheet, and our participation in that business will be accounted for through the equity method. Because Beyond E-Tech incurred a net loss of \$35,512 in 2009, we recorded a \$17,401 reduction in the value of its equity on our books.

During 2009, the change in the fair value of warrants was \$666,839, which was recognized as other income for the year ended December 31, 2009. During 2008, the change in the fair value of warrants was \$4,090,812, which was recognized as other income for the year ended December 31, 2008. If in future quarters the warrants increase in value (e.g. by reason of an increase in the market price of our common stock), we will record an other expense equal to the amount of the increase.





The Company's revenue less expenses produced pre-tax income of \$27,592,238 for the year ended December 31, 2009, representing an increase of \$4,682,899 from 2008. In 2009, our domestic (U.S.) pre-tax loss was \$ 3,686,549 (including \$666,839 other income due to change in fair value of warrants); foreign (China) pre-tax income was \$27,791,749, which includes the \$8,645,276 gain on bargain purchase recognized in the second quarter of 2009. The income tax accrued as a result of our operations was \$2,764,339. The deferred income tax accrued in 2009 because of the gain on bargain purchase was \$3,025,847. As a result of Chinese tax laws that reward foreign investment in China, currently and through 2010 ZQ Power-Tech is entitled to a 50% tax abatement, which results in an effective corporate tax rate of approximately 12.5%. After taxes of \$5,790,186 realized in the year ended December 31 2009, our net income was \$ 21,802,052, representing an 8.0% increase over 2008.

#### Liquidity and Capital Resources

The growth of our Company has been funded by capital contributions - initially those of our founders and in recent years capital raised by the sale of equity to private investors and current earnings. During the first quarter of 2010 we satisfied all of the bank debt that had been incurred by Wuxi ZQ prior to our acquisition of that company. As a result, at December 31, 2010 we had no outstanding debt.

At December 31, 2010 we had two long term liabilities, neither of which will require a cash payment in the near term:

- A deferred tax liability that arose from the gain on bargain purchase we realized in connection with our acquisition of Wuxi ZQ; and
- Warrant liability of \$11,749,803 attributable to the warrants that we issued in connection with the three equity financing transactions in 2008 and 2009. Pursuant to provisions of ASC 815, the present value of the outstanding warrants is considered a liability.

The table below sets forth our debt service obligations as of December 31, 2010.

Contractual Obligations	Total	Less than		4-5	More than
		1 Year	1-3 Years	Years	5 Years
Long-Term Debt Obligations—	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Operating Lease Obligations	\$ 161,860	\$ 119,835	\$ 42,025	\$ 0	\$ 0
Purchase Obligations	\$ 4,636,199	\$ 4,636,199	\$ 0	\$ 0	\$ 0
<b>TOTAL</b>	<b>\$ 4,798,059</b>	<b>\$ 4,756,034</b>	<b>\$ 42,025</b>	<b>\$ 0</b>	<b>\$ 0</b>

In December 2010 the Company sold 7,500,000 shares of common stock and 3,750,000 warrants to purchase common stock at \$4.00 per share. The warrants will expire in December 2011. The purchasers were institutional funds. The net proceeds of the placement was \$28,471,500.

At December 31, 2010 the Company had a working capital balance of \$131,151,764, an improvement from our working capital balance of \$83,453,937 at December 31, 2009. We had \$111,128,070 cash, an increase of \$58,204,712 from our cash balance of \$52,923,358 at December 31, 2009. The primary reason for the improvement in working capital and cash was the strong positive operating cash flows and the equity offering we completed in December 2010.



During 2011 we will be using a significant portion of our cash reserves for two purposes:

- In January 2011 we completed the purchase of the assets of Shenzhen Zhongqiang. A balance of \$8.5 million on account of the purchase price remained due and payable in the first quarter of 2011. We also expect to incur expenses in consolidating those operations with our existing battery operations.
- In January 2011 we agreed to purchase a manufacturing site in Dongguan City for approximately \$26 million. We plan to outfit it for battery production during 2011 at an additional cost of approximately \$25 million.

Despite these commitments, we have sufficient liquidity to fund our near-term operations and capital expenditures. If we determine that additional funds are needed for other attractive growth opportunities or for the full implementation of our long term expansion plans for Wuxi ZQ, we have over \$57 million in property, plant and equipment that are free of liens which could be used as collateral for potential loans. We believe that secured lenders would look favorably on our strong financial position, positive cash flows as well as promising business prospects, and that secured financing will be available on favorable terms if needed.

Given the financial resources available to the Company, management believes that it has sufficient capital and liquidity to sustain operations for the foreseeable future.

#### Application of Critical Accounting Policies

In preparing our financial statements we are required to formulate working policies regarding valuation of our assets and liabilities and to develop estimates of those values. In our preparation of the financial statements for 2010 there were four estimates made which were (a) subject to a high degree of uncertainty and (b) material to our results. They were:

- The first was our determination, detailed in Note 2 to the Financial Statements under the heading “revenue recognition,” that we had no need of a reserve for warranty costs. The primary reason for the determination was the fact that we have received no warranty claims to date.
- The second was our determination, detailed in Note 4 to the Financial Statements, to reserve the full amount of Wuxi ZQ’s outstanding loans receivable, \$979,692. The determination was based on our inability to obtain assurances that the loans were collectable.
- The third was our determination, detailed in Note 11 to the Financial Statements, to record no impairment of Wuxi ZQ’s intangible assets. The determination was based on our evaluation of the future cash flows from Wuxi ZQ’s business, which exceeded the carrying cost of the intangible assets.
- The fourth was our determination of the fair value of our outstanding warrants, detailed in Note 17 to the Financial Statements. The calculation of fair value was based on the historic volatility of the market price for our common stock as well as our conclusion regarding a contemporaneous risk-free interest rate. These factors, however, may not accurately measure that cost that the Company might incur if we were required to redeem the warrants.

We made no material changes to our critical accounting policies in connection with the preparation of financial statements for 2010.

### Impact of Accounting Pronouncements

There were no recent accounting pronouncements that have had a material effect on the Company's financial position or results of operations. The following recent accounting pronouncements have been considered by the Company in preparing its financial statements for the year ended December 31, 2010.

In December 2009, FASB issued new guidance regarding improvements to financial reporting by enterprises involved with variable interest entities. The new guidance provides an amendment to its consolidation guidance for variable interest entities and the definition of a variable interest entity and requires enhanced disclosures to provide more information about an enterprise's involvement in a variable interest entity. This amendment also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity and is effective January 1, 2010. The Company adopted this guidance on January 1, 2010 which had no impact on our consolidated financial statements.

In January 2010, FASB issued an amendment to its accounting for distributions to shareholders with components of stock and cash. This new guidance clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance. This guidance is effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company adopted this amendment on January 1, 2010 which had no impact from the adoption of this guidance since we have never declared dividends on our common stock.

In January 2010, FASB issued an amendment regarding improving disclosures about fair value measurements. This new guidance requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. There was no impact from the adoption of this guidance to our consolidated balance sheets or statements of income as the amendment only addresses disclosures.

In April 2010, FASB issued an amendment to Stock Compensation. The amendment clarifies that an employee stock-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity shares trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. We do not anticipate any impact from our adoption of this guidance since our stock-based payment awards have an exercise price denominated in the same currency of the market in which our Company shares are traded.

In December 2010, FASB issued an amendment to goodwill impairment test. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. We do not anticipate

any impact from our adoption of this guidance since we do not have goodwill for any reporting unit that has zero or negative carrying amounts at December 31, 2010.

In December 2010, FASB issued an amendment to the disclosure of supplementary pro forma information for business combinations. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted, but was not elected.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our operating subsidiary, ZQ Power-Tech, carries on business exclusively in Chinese Renminbi. Therefore it does not have any derivative instruments or other financial instruments that are market risk sensitive.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm - EFP Rotenberg LLP	F-30
Report of Independent Registered Public Accounting Firm - Friedman LLP	F-31
Report of Independent Registered Public Accounting Firm - Bagell, Josephs, Levine & Company, L.L.C.	F-32
Consolidated Balance Sheets as of December 31, 2010 and 2009	F-33
Consolidated Statements of Income and Other Comprehensive Income for the years ended December 31, 2010, 2009 and 2008	F-34
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2010, 2009 and 2008	F-35
Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008	F-36
Notes to Consolidated Financial Statements	F-37



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
Advanced Battery Technologies, Inc.

We have audited the accompanying balance sheet of Advanced Battery Technologies, Inc. as of December 31, 2010, and the related statements of income, stockholders' equity and comprehensive income, and cash flows for the year ended December 31, 2010. We also have audited Advanced Battery Technologies, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Advanced Battery Technologies, Inc.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in Management's Report on Internal Control over Financial Reporting: (a) a lack of expertise

in identifying and addressing complex accounting issues under U.S. Generally Accepted Accounting Principles among the personnel in the Company's accounting department, which has resulted in errors in accounting that necessitated a restatement of the financial statements for 2008 and 2009 and (b) inadequate review by management personnel of the Company's reports prior to filing, which resulted in errors in prior filings that necessitated the filing of amendments to the 2009 Annual Report and the Quarterly Reports through the quarter ended September 30, 2010. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2010 financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Advanced Battery Technologies, Inc. has not maintained effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advanced Battery Technologies, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ EFP Rotenberg, LLP  
EFP Rotenberg, LLP  
Rochester, New York  
March 16, 2011

To the Board of Directors and  
Stockholders of Advanced Battery Technologies, Inc

We have audited the accompanying balance sheets of Advanced Battery Technologies, Inc as of December 31, 2009, and the related statements of income, stockholders' equity and comprehensive income, and cash flows for the year ended December 31, 2009. We also have audited Advanced Battery Technologies, Inc's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Advanced Battery Technologies, Inc's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits. . The consolidated financial statements of Advanced Battery Technologies, Inc. and subsidiaries as of December 31, 2008 and for the each of the two years in the period ended December 31, 2008 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 12, 2009.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified and included in its restated assessment the following material weaknesses as of December 31, 2009: a lack of expertise in identifying and addressing complex accounting issues under U.S. Generally Accepted

Accounting Principles among the personnel in the Company's accounting department, which has resulted in certain errors in accounting identified in Note 24 to the Consolidated Financial Statements and inadequate review by management personnel of the Company's reports prior to filing, which has resulted in errors identified on the cover page of this amended report as the reasons for the amendment. These material weaknesses resulted in restatements of the Company's previously issued consolidated financial statements as of December 31, 2008 and 2009, and for each of the years in the two-year period ended December 31, 2009, and the financial information for each of the quarters in 2009 and September 30, 2008.

As discussed above, the consolidated financial statements of Advanced Battery Technologies, Inc. and subsidiaries were audited by other auditors who have ceased operations. As discussed in Note 24, these financial statements have been restated. We have audited the adjustments described in Note 24 that were applied to restate the December 31, 2008 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2008 and 2007 consolidated financial statements of the Company other than with respect to these adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2008 and 2007 consolidated financial statements taken as a whole.

As discussed in Note 24 to the consolidated financial statements, the Company restated its 2009 consolidated financial statements. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects the consolidated financial position of Advanced Battery Technologies, Inc. as of December 31, 2009, and the consolidated results of the operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Advanced Battery Technologies, Inc did not maintain effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Friedman LLP

Friedman LLP

Marlton ,NJ 08053

March 29, 2010 except for Notes 2,3,16,18 and 24 which the date is February 18, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Advanced Battery Technologies, Inc.

We have audited, before the effects of the adjustments for the correction of the error described in Note 24, the accompanying statements of income and comprehensive income, changes in stockholders' equity and cash flows of Advanced Battery Technologies, Inc. for the year ended December 31, 2008. We have also audited the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission. (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting, may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, except for the restatement described in Note 24, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the results of its operations and its cash flows for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We were not engaged to audit, review, or apply any procedures to the adjustments related to the restatement described in Note 24 and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by Friedman LLP.

/s/ BAGELL, JOSEPHS, LEVINE & COMPANY, L.L.C.

Bagell, Josephs, Levine & Company, L.L.C.

Marlton, NJ 08053

March 12, 2009

F-32

---

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009 (Restated)
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 111,128,070	\$ 52,923,358
Accounts receivable, net	16,084,366	22,406,927
Inventories, net	5,224,553	3,680,098
Loan receivable	1,600,000	1,600,000
Other receivables	272,888	107,751
Advance to suppliers, net	4,015,313	7,940,129
Deferred tax asset	447,305	-
<b>Total Current Assets</b>	<b>138,772,495</b>	<b>88,658,263</b>
Property, plant and equipment, net	57,452,244	47,248,600
<b>Other assets:</b>		
Investment in unconsolidated entity	776,860	785,057
Deposit for investment	11,721,468	1,457,034
Deposit for long-term assets	2,307,350	2,860,882
Intangible assets, net	13,957,505	14,317,502
Goodwill	2,566,337	2,472,311
Other assets	44,211	26,705
<b>Total Other Assets</b>	<b>31,373,731</b>	<b>21,919,491</b>
<b>TOTAL ASSETS</b>	<b>\$ 227,598,470</b>	<b>\$ 157,826,354</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Short-term loan	\$ -	\$ 2,916,071
Accounts payable	1,282,410	670,254
Advances from customers	10,074	228,871
Accrued expenses and other payables	441,220	1,389,130
Tax payable	5,887,027	-
<b>Total Current Liabilities</b>	<b>7,620,731</b>	<b>5,204,326</b>
<b>Long Term Liabilities:</b>		
Deferred tax liability	3,025,847	3,025,847
Warrant liability	11,749,803	17,221,335
<b>Total Liabilities</b>	<b>22,396,381</b>	<b>25,451,508</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock, \$0.001 face value; 5,000,000 shares authorized; 2 shares issued and 2 shares outstanding as of December 31, 2010 and 2009	-	-
Common stock, \$0.001 par value; 150,000,000 shares authorized; 76,619,220 shares issued and 76,424,639 shares outstanding as of December 31, 2010 and	76,619	68,778

Edgar Filing: ADVANCED BATTERY TECHNOLOGIES, INC. - Form 10-K

68,778,112 shares issued and 68,583,531 shares outstanding as of December 31, 2009

Additional paid-in capital	100,198,536	70,018,939
Accumulated other comprehensive income	11,414,192	5,500,705
Retained earnings	94,012,232	57,285,914
Less: Cost of treasury stock (194,581 shares as of December 31, 2010 and 2009)	(499,490 )	(499,490 )
Total Stockholders' Equity	205,202,089	132,374,846
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 227,598,470</b>	<b>\$ 157,826,354</b>

The accompanying notes are an integral part of these consolidated financial statements

F-33

---



ADVANCED BATTERY TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	For The Years Ended December 31,		
	2010	2009 (Restated)	2008 (Restated)
Revenue	\$97,128,668	\$63,561,925	\$45,172,111
Cost of Goods Sold	51,231,779	35,169,478	23,122,610
Gross Profit	45,896,889	28,392,447	22,049,501
Operating Expenses			
Research & Development expenses	204,567	348,297	4,463
Selling, general and administrative expenses	7,842,858	9,890,173	3,263,409
Operating Income	37,849,464	18,153,977	18,781,629
Other Income (Expenses)			
Interest income	410,001	290,774	124,487
Interest (expense)	(47,653 )	(501,096 )	-
Equity gain (loss) from unconsolidated entity	(8,197 )	(17,401 )	(90,707 )
Forgiveness of debt	-	336,906	-
Other income (expenses)	265,745	16,963	3,118
Gain on bargain purchase	-	8,645,276	-
Change in fair value of warrants	5,471,531	666,839	4,090,812
Total Other Income	6,091,427	9,438,261	4,127,710
Income before Income Tax	43,940,891	27,592,238	22,909,339
Provision for Income Tax			
Income tax - Current	7,650,861	2,764,339	2,722,407
Income tax - Deferred	(436,288 )	3,025,847	-
Net Income	\$36,726,318	\$21,802,052	\$20,186,932
Other Comprehensive Income			
Foreign currency translation adjustment	5,913,487	(511,770 )	2,912,481
Comprehensive Income	\$42,639,805	\$21,290,282	\$23,099,413
Earnings per share			
Basic	\$0.53	\$0.42	\$0.46
Diluted	\$0.48	\$0.36	\$0.39
Weighted average number of common shares outstanding			

Basic	69,260,213	52,124,814	43,493,492
Diluted	76,404,451	60,222,687	51,671,992

The accompanying notes are an integral part of consolidated financial statements

F-34

---

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Preferred stock Shares	Par Value	Common stock Shares	Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Treasury Stock at Cost	Total Stockholders' Equity
Balance December 31, 2007	-	\$-	49,688,998	\$49,689	\$18,029,891	\$3,099,994	\$15,296,930	\$-	\$36,476,504
Issuance of common stock for financing	-	-	5,058,834	5,059	12,830,616	-	-	-	12,835,675
Stock issued under employee equity incentive plan	-	-	33,745	34	(34 )	-	-	-	-
Net income for the year	-	-	-	-	-	-	20,186,932	-	20,186,932
Foreign currency translation adjustments	-	-	-	-	-	2,912,481	-	-	2,912,481
Purchase of treasury stock (119,510 shares)	-	-	-	-	-	-	-	(295,702)	(295,702 )
Amortization of prepaid consulting expenses	-	-	-	-	309,237	-	-	-	309,237
Amortization of stock-based compensation	-	-	-	-	599,476	-	-	-	599,476
Balance December 31, 2008 (Restated)	-	-	54,781,577	54,782	31,769,186	6,012,475	35,483,862	(295,702)	73,024,603
Issuance of preferred stock for financing	17,000	17	-	-	6,577,419	-	-	-	6,577,436
Conversion of preferred stock to	(16,998)	(17)	4,387,993	4,388	(4,371 )	-	-	-	-

Edgar Filing: ADVANCED BATTERY TECHNOLOGIES, INC. - Form 10-K

common stock									
Issuance of common stock for acquisition	-	-	3,000,000	3,000	9,867,000	-	-	-	9,870,000
Issuance of common stock for financing	-	-	4,592,145	4,592	13,770,726	-	-	-	13,775,318
Exercise of warrants	-	-	1,722,622	1,723	5,976,057	-	-	-	5,977,780
Stock issued for service	-	-	293,775	294	(294 )	-	-	-	-
Net income for the year	-	-	-	-	-	-	21,802,052	-	21,802,052
Foreign currency translation adjustments	-	-	-	-	-	(511,770 )	-	-	(511,770 )
Purchase of treasury stock (75,071 shares)	-	-	-	-	-	-	-	(203,788)	(203,788 )
Amortization of prepaid consulting expenses	-	-	-	-	137,562	-	-	-	137,562
Amortization of stock-based compensation	-	-	-	-	1,925,653	-	-	-	1,925,653
Balance December 31, 2009 (Restated)	2	-	68,778,112	68,778	70,018,939	5,500,705	57,285,914	(499,490)	132,374,846
Stock issued for service	-	-	344,108	344	(344 )	-	-	-	-
Issuance of common stock and warrants	-	-	7,500,000	7,500	28,464,000	-	-	-	28,471,500
Stock cancellation due to employment termination			(3,000 )	(3 )	3	-	-	-	-
Net income for the year	-	-	-	-	-	-	36,726,318	-	36,726,318
Foreign currency translation adjustments	-	-	-	-	-	5,913,487	-	-	5,913,487
Amortization of prepaid	-	-	-	-	116,375	-	-	-	116,375

consulting expenses									
Amortization of stock-based compensation	-	-	-	-	1,599,563	-	-	-	1,599,563
Balance December 31, 2010	2	\$-	76,619,220	\$76,619	\$100,198,536	\$11,414,192	\$94,012,232	\$(499,490)	\$205,202,089

The accompanying notes are an integral part of these consolidated financial statements

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	2010	For The Years Ended December 31, 2009 (Restated)	2008 (Restated)
<b>Cash Flows from Operating Activities:</b>			
Net income	\$36,726,318	\$21,802,052	\$20,186,932
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Gain on bargain purchase	-	(8,645,276 )	-
Deferred income tax	(436,288 )	3,025,847	-
Depreciation and amortization	4,116,212	2,629,643	767,235
Amortization of deferred consulting expenses	116,375	137,562	309,237
Amortization of stock-based compensation expense	1,599,563	1,925,653	599,476
Equity loss of unconsolidated entity	8,197	17,401	90,707
Provision for doubtful accounts and inventory valuation allowance	296,241	(208,876 )	64,161
Forgiveness of debt	-	(336,849 )	-
Investment impairment loss	-	235,091	371,743
Loss on disposal of fixed asset	5,017	-	55,187
Change in fair value of warrants	(5,471,532 )	(666,839 )	(4,090,812 )
Changes in operating assets and liabilities:			
Accounts receivable, net	7,813,327	(6,514,738 )	1,002,020
Inventories, net	(1,369,905 )	(274,638 )	(636,296 )
Other receivables and other assets	(224,235 )	(13,252 )	144,226
Advance to suppliers	3,316,766	(5,592,320 )	1,362,804
Accounts payable, accrued expenses and other payables	(251,303 )	(9,089,636 )	196,288
Advances from customers	(221,898 )	(1,164,942 )	5,363
Tax payable	5,572,511	(174,435 )	-
<b>Net Cash Provided By (Used in) Operating Activities</b>	<b>51,595,366</b>	<b>(2,908,552 )</b>	<b>20,428,271</b>
<b>Cash Flows from Investing Activities:</b>			
Loan receivable	-	-	(1,600,000 )
Deposit for property, plant and equipment	(770,549 )	(2,828,783 )	(1,748,363 )
Purchase of property, plant and equipment	(11,610,479)	(9,333,367 )	(3,191,802 )
Cash acquired from business combination	-	832,555	-
Payment made on deposit for investment	(9,957,588 )	(1,463,913 )	(3,000,000 )
Acquisition of intangible assets	(146,894 )	-	-
Investment in unconsolidated entity	-	-	(1,500,000 )
<b>Net Cash (Used in) Investing Activities</b>	<b>(22,485,510)</b>	<b>(12,793,508)</b>	<b>(11,040,165)</b>
<b>Cash Flows from Financing Activities:</b>			
Repayment of bank loan	(2,950,396 )	(4,389,735 )	-
Repayment of notes payable	-	-	(411,263 )
Purchase of treasury stock	-	(203,788 )	(295,702 )

Edgar Filing: ADVANCED BATTERY TECHNOLOGIES, INC. - Form 10-K

Proceeds from equity financing, net	28,471,500	-	-
Proceeds from issuance of stock, net	-	40,788,717	20,356,480
Repayment of officer loan	-	(140,059 )	(718,465 )
<b>Net Cash Provided By Financing Activities</b>	<b>25,521,104</b>	<b>36,055,135</b>	<b>18,931,050</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	3,573,752	(175,872 )	1,722,176
Increase in cash and cash equivalents	58,204,712	20,177,203	30,041,332
Cash and Cash Equivalents - Beginning of Year	52,923,358	32,746,155	2,704,823
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 111,128,070</b>	<b>\$52,923,358</b>	<b>\$32,746,155</b>

**SUPPLEMENTAL CASH FLOW INFORMATION:**

During the year, cash was paid for the following:

Interest expense	\$47,653	\$395,496	\$-
Income tax	\$3,264,431	\$1,083,556	\$2,881,966

**NON-CASH INVESTING AND FINANCING ACTIVITIES:**

Common stock issued for stock-based compensation	\$1,215,255	\$1,162,850	\$139,403
Fair value of warrants issued to placement agent in financing	\$619,148	\$1,159,370	\$917,920
Common stock issued for acquisition of Wuxi ZQ	\$-	\$9,870,000	\$-
Options issued to executives for service	\$-	\$777,660	\$-

The accompanying notes are an integral part of these consolidated financial statements

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

1. ORGANIZATION AND BASIS OF PRESENTATION

Advanced Battery Technologies, Inc. ("ABAT" or the "Company") was incorporated in the State of Delaware on January 16, 1984.

On May 6, 2004, the Company completed a share exchange (the "Exchange") with the shareholders of Cashtech Investment Limited ("Cashtech"), a British Virgin Islands Corporation, who, at the time, owned 70% interest of Harbin Zhong Qiang Power-Tech Co., Ltd. ("ZQPT" or "Harbin ZQPT"), a limited liability company established in the People's Republic of China (the "PRC"). As result of this share exchange transaction, there was change of control in the Company as the shareholders of Cashtech became the majority shareholders of the Company.

The transaction had been accounted for as a reverse acquisition under the purchase method of accounting. Accordingly, Cashtech was treated as the continuing entity for accounting purposes.

On January 6, 2006, the minority shareholders of ZQPT transferred the remaining 30% of their interests in ZQPT to Cashtech in exchange for 11,780,594 shares of the Company's Common Stock. As result of this transfer, Cashtech now owns 100% of the capital stock of ZQPT.

On May 4, 2009, the Company acquired 100% interest of Wuxi Angell Autocycle Co., Ltd. ("Wuxi ZQ").

On August 20, 2002, Heilongjiang Zhongqiang Power-Tech Co., Ltd ("HLJ ZQPT"), was incorporated under the laws of the PRC. HLJ ZQPT is owned by our Chairman, Mr. Fu and other individuals but controlled by Harbin ZQPT through a series of contractual arrangements that transferred all of the benefits and all of the responsibilities for the operations of HLJ ZQPT to Harbin ZQPT. During 2009 HLJ ZQPT also transferred to Harbin ZQPT all of its rights in the real property on which HLJ carries on its operations. The Company is in the process of transferring all of the other assets of HLJ ZQPT to Harbin ZQPT, but has not yet obtained all of the necessary government approvals. Harbin ZQPT accounts for HLJ ZQPT as a Variable Interest Entity ("VIE") under ASC 810 "Consolidation". Accordingly, Harbin ZQPT consolidates HLJ ZQPT's results, assets and liabilities.

The Company is engaged in design, manufacture and distribution of rechargeable polymer lithium-ion batteries and electric vehicles through its wholly owned subsidiaries, Cashtech, ZQPT, Wuxi ZQ and the VIE, HLJ ZQPT. The Company's main operations are located in the PRC.

The accompanying consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").



ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cashtech Inc., ZQPT, Wuxi ZQ and the VIE, HLJ ZQPT. All significant inter-company balances and transactions have been eliminated in consolidation.

### Use of estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Significant estimates required to be made by management include, but are not limited to, useful lives of property, plant and equipment, intangible assets, the recoverability of long-lived assets and the valuation of accounts receivable and inventories. Actual results could differ from those estimates.

### Variable Interest Entity

The accounts of Heilongjiang ZQPT have been consolidated with the accounts of the Company because Heilongjiang ZQPT is a variable interest entity with respect to Harbin ZQPT, which is a wholly-owned subsidiary of the Company. Harbin ZQPT is party to five agreements dated September 8, 2004 with the owners of the registered equity of Heilongjiang ZQPT and with Heilongjiang ZQPT. The agreements transfer to Harbin ZQPT all of the benefits and all of the risk arising from the operations of Heilongjiang ZQPT, as well as complete managerial authority over the operations of Heilongjiang ZQPT. Harbin ZQPT is the guarantor of all of the obligations of Heilongjiang ZQPT. Since 2004 all of the funds used by Heilongjiang ZQPT to expand and operate its business have been provided by Harbin ZQPT. By reason of the relationship described in these agreements, Heilongjiang ZQPT is a variable interest entity with respect to Harbin ZQPT because the following characteristics identified in ASC 810-10-15-14 are present:

- The holders of the equity investment in Heilongjiang ZQPT lack the direct or indirect ability to make decisions about the entity's activities that have a significant effect on the success of Heilongjiang ZQPT, having assigned their voting rights and all managerial authority to Harbin ZQPT. (ASC 810-10-15-14(b)(1)).
- The holders of the equity investment in Heilongjiang ZQPT lack the obligation to absorb the expected losses of Heilongjiang ZQPT, having assigned to Harbin ZQPT all revenue and responsibility for all payables. (ASC 810-10-15-14(b)(2)).
- The holders of the equity investment in Heilongjiang ZQPT lack the right to receive the expected residual returns of Heilongjiang ZQPT, having granted to Harbin ZQPT all revenue as well as an option to purchase the equity interests at a fixed price. (ASC 810-10-15-14(b)(3)).



ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Variable Interest Entity (Continued)

Because the relationship between Heilongjiang ZQPT and Harbin ZQPT is entirely contractual, the Company's interest in Heilongjiang ZQPT depends on the enforceability of those agreements under the laws of the PRC. We are not aware of any judicial decision as to the enforceability of similar agreements under PRC law.

The carrying amount and classification of Heilongjiang ZQPT's assets and liabilities included in the Consolidated Balance Sheets are as follows:

	December 31, 2010	December 31, 2009
Total current assets*	\$ 83,649,753	\$ 60,369,844
Total assets*	133,306,312	91,031,626
Total current liabilities**	32,396,351	17,686,834
Total liabilities**	\$ 32,396,351	\$ 17,686,834

\* Including intercompany accounts of \$7,314,032 and \$7,663,873 as at December 31, 2010 and 2009 be eliminated in consolidation.

\*\* Including intercompany accounts of \$30,788,579 and \$17,357,874 as at December 31, 2010 and 2009 be eliminated in consolidation.

### Fair value of financial instruments

The Company adopted the provisions of Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures." ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The carrying amounts reported in the balance sheets for cash, accounts receivable, loan receivables, other receivables, advance to suppliers, short-term loan, accounts payable, advance from customers, accrued expenses and other payables, approximate their fair market value due to the short-term nature of these instruments. The Company uses Level 3 method to measure fair value of its warrant liability. See Note 18 for disclosure of the inputs and valuation techniques used to measure the fair value of the warrant liability. During the years ended December 31, 2010, 2009 and 2008, the Company's warrant liability accounts changed as followed:

	Years Ended December 31,		
	2010	2009	2008
Beginning balance	\$ 17,221,335	\$ 3,429,992	\$ -
Issuance of warrants	-	14,754,352	7,520,805
Exercise/expiration of warrants	-	(296,170 )	-
Change in fair value of warrants included in earnings*	(5,471,532 )	(666,839 )	(4,090,813 )
Ending balance	\$ 11,749,803	\$ 17,221,335	\$ 3,429,992

\* Reported on Consolidated Statements of Income and Other Comprehensive Income: Other Income (Expenses): Change in Fair Value of Warrants.

The Company did not identify any other assets or liabilities that are required to be re-measured at fair value at a recurring basis in accordance with ASC 820.

Risk of losses

The Company is exposed to potential risks of losses that may result from business interruptions, injury to others (including employees) and damage to property. These losses may be uninsured, especially due to the fact that the Company's operations are in China, where business insurance is not readily available. The Company would recognize the potential losses and make the related accruals if: (i) information is available and indicates that such loss is probable and (ii) the amount of the loss can be reasonably estimated. As of December 31, 2010 and 2009, the Company is not aware of any potential losses that need to be accrued on the financial statements.

Cash and cash equivalents

For purposes of the statement of cash flow, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts receivable

Accounts receivables are stated at net realizable value. Any allowance for doubtful accounts is established based on the management's assessment of the recoverability of accounts and other receivables. Management regularly reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the collectability of accounts receivable and the adequacy of the allowance. The allowance for accounts receivable is \$67,392 and \$570,182 as of December 31, 2010 and 2009 respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a weighted average method. Cost of work in progress and finished goods comprises direct material, direct production cost and an allocated portion of production overheads. Management compares the cost of inventory with the market value and an allowance is made for writing down the inventory to its market value, if lower. If inventory is written down below cost at the end of a fiscal period, the reduced amount is considered the cost for subsequent accounting purposes, and cannot be marked up based on changes in the underlying facts and circumstances.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Maintenance, repairs and betterments, including replacement of minor items, are charged to expense; major additions to physical properties are capitalized. Depreciation and amortization are provided using the straight-line method (after taking into account their respective estimated residual values) over the estimated useful lives of the assets as follows:

Buildings and improvements	20-39 years
Machinery, equipment and motor vehicles	5-10 years

Construction in progress

Construction in progress represents buildings and machinery under construction, which is stated at cost and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

The Company has considered capitalizing interest for the construction in progress as of December 31, 2010 and 2009, and determined that the amount is insignificant and not expected to have a material impact on the amount of construction in progress.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Acquisitions

The purchase method of accounting is used to account for the acquisition by the Company. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the excess of the value of the net assets acquired over the purchase price is recorded as "other income (expense): gain on bargain purchase" in the Company's Consolidated Statement of Income. Acquisition-related costs, such as professional fees and administrative costs, are recorded as expenses in the period in which they are incurred and the services rendered.

Goodwill

Goodwill and other intangible assets are accounted for in accordance with the provisions of ASC 350, "Intangibles - Goodwill and Other." Under ASC 350, goodwill and intangible assets that are deemed to have indefinite useful lives are not amortized. Rather, they are assessed for impairment. We perform impairment testing on the intangible assets whenever events or changes indicate that the fair value of these intangible might be impacted. We perform the goodwill impairment assessment on the last day of the each fiscal year. To test goodwill for impairment, we first assign the recorded goodwill to one of our two reporting units, the battery operations and the electric vehicle operations, by comparing the estimated fair value of the reporting unit as a whole with the fair values of the unit's identifiable net assets. We apply the following two-step process to each reporting unit:

- Step 1: We estimate the fair value of the reporting unit (UFV) in the manner described above and compare it with the unit's book value (UBV), which equals the recorded amounts of assets and allocated goodwill less liabilities. When UFV is greater than UBV, there is no impairment, and the test is complete. When UFV is less than UBV, then we go to Step 2.
- Step 2: We estimate the implied fair value (GFV) of the reporting unit's goodwill by repeating the process performed at acquisition. This requires subtracting estimated current fair values of the unit's identifiable net assets from the unit's estimated fair value (UFV), and comparing the difference with the carrying amount of the goodwill (GBV). When GFV is greater than GBV, goodwill is not impaired. When GFV is less than GBV, we record an impairment write-off equal to the difference.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets

Finite-lived intangible assets are amortized over their respective useful lives and, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with ASC 360, "Property, Plant and Equipment."

In evaluating long-lived assets for recoverability, including finite-lived intangibles and property and equipment, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition in accordance with ASC 360. To the extent that estimated future undiscounted net cash flows attributable to the asset are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell.

Long-lived assets, which include property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Revenue recognition

The Company recognizes revenue recognition in accordance with Staff Accounting Bulletin ("SAB") 104. Sales revenue is recognized when title and risks have passed, which is generally at the date of shipment and when collectability is reasonably assured.

The Company sells its products to customers who have passed the Company's credit check. Sales agreements are signed with each customer. The purchase price of products is fixed in the agreement. The Company makes custom products based on sales agreements, so no returns are allowed. The Company provides warranty on the product for one year from the date of shipment only in the event of defects. Historically, the Company has not experienced significant defects, and replacements for defects have been minimal. For the years ended December 31, 2010, 2009 and 2008, no sales returns and allowances have been recorded. Should returns increase in the future it would be necessary to adjust estimates, in which case recognition of revenues could be delayed. Payments received before all of the relevant criteria for revenue recognition are recorded as advance from customers.

Net sales of products represent the invoiced value of goods, net of value added taxes ("VAT"), sales returns, trade discounts and allowances. The Company is subject to VAT which is levied on majority of the Company's products at the rate of 17% on the invoiced value of sales. Output VAT is borne by customers in addition to the invoiced value of sales and input VAT is borne by the Company in addition to the invoiced value of purchases to the extent not refunded for export sales. Input VAT paid is recoverable from output VAT charged to customers.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Product warranty

The Company provides product warranties to its customers that all equipment manufactured by it will be free from defects in materials and workmanship under normal use for a period of one year from the date of shipment. The Company's costs and expenses in connection with such warranties has been minimal and, as of December 31, 2010, no product warranty reserve was considered necessary.

Stock-Based compensation

The Company adopted the provisions of ASC 718, "Compensation - Stock Compensation," which establishes the accounting for employee stock-based awards. Under the provisions of ASC 718, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (i.e. the vesting period of the grant). The fair value of shares granted is deemed to be the closing traded price of our common stock on the date of grant. The fair value of options granted is determined by utilizing the Black Scholes Option Pricing Model.

Generally shares issued to executives and employees will be vested over a certain service period. These shares will be amortized over the vesting period in accordance with ASC 718. The average vesting period for the shares issued to date has been 3.09 years, based on the terms of the employment agreements under which the stock was awarded. The stock-based compensation was \$1,599,563, \$1,925,653 and \$599,476 for the years ended December 31, 2010, 2009 and 2008, respectively.

The Company measures compensation expense for its non-employee stock-based compensation under ASC 505-50 "Equity-Based Payments to Non-Employees." The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. Fair value is measured as the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital. All shares issued to non-employees were fully vested as of December 31, 2010.

Research and development costs

Research and development costs are expensed as incurred. The salaries of engineers and technical staff in our research and development division are included in research and development expense. The expense was \$204,567, \$348,297 and \$4,463 for the years ended December 31, 2010, 2009 and 2008, respectively.



ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising is expensed as incurred. Advertising expenses were included in selling expenses and amounted to \$13,812 and \$1,016,820 for the years ended December 31, 2010 and 2009, respectively. The Company did not have any advertising expenses for the year ended December 31, 2008.

Post-retirement and post-employment benefits

Full time employees of subsidiaries of the Company participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, employee housing, and other welfare benefits are provided to employees. Chinese labor regulations require that the subsidiaries of the Company make contributions to the government for these benefits based on a certain percentages of employees' salaries. The Company has no legal obligation for the benefits beyond the contributions made. The total amounts for such employee benefits, which were expensed as incurred, were \$75,370, \$64,543 and \$7,050 for the years ended December 31, 2010, 2009 and 2008, respectively. Other than the above, neither the Company nor its subsidiary provides any other post-retirement or post-employment benefits.

Income tax

The Company utilizes ASC 740, "Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Comprehensive income

Comprehensive income is defined to include changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. Comprehensive income includes net income and the foreign currency translation gain, net of tax.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic and diluted earnings per share

Earnings per share are calculated in accordance with the ASC 260, "Earnings per share." Basic net earnings per share are based upon the weighted average number of common shares outstanding, but excluding shares issued as compensation that have not yet vested. Diluted net earnings per share are based on the assumption that all dilutive convertible shares and stock options were converted or exercised, and that all unvested shares have vested. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Segment reporting

ASC 280 requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. During the years ended December 31, 2010 and 2009, the Company operated in two business segments - battery segment and electronic vehicle segment. The Company operated in one business segment for the year ended December 31, 2008.

Foreign currency translation

The functional currency of Harbin ZQPT, HLJ ZQPT and Wuxi ZQ is the Chinese Renminbi ("RMB"). For financial reporting purposes, RMB has been translated into United States dollars ("USD") as the reporting currency. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Income statement accounts are translated at the average rate of exchange prevailing for the period. Capital accounts are translated at their historical exchange rates when the capital transaction occurred. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholders' equity as "Accumulated other comprehensive income." Gains and losses resulting from foreign currency translation are included in accumulated other comprehensive income.

Recently issued accounting standards

In December 2009, FASB issued new guidance regarding improvements to financial reporting by enterprises involved with variable interest entities. The new guidance provides an amendment to its consolidation guidance for variable interest entities and the definition of a variable interest entity and requires enhanced disclosures to provide more information about an enterprise's involvement in a variable interest entity. This amendment also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity and is effective January 1, 2010. The Company adopted this guidance on January 1, 2010 which had no impact on our consolidated financial statements.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2010, FASB issued an amendment to its accounting for distributions to shareholders with components of stock and cash. This new guidance clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance. This guidance is effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company adopted this amendment on January 1, 2010 which had no impact from the adoption of this guidance since we have never declared dividends on our common stock.

In January 2010, FASB issued an amendment regarding improving disclosures about fair value measurements. This new guidance requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. There was no impact from the adoption of this guidance to our consolidated balance sheets or statements of income as the amendment only addresses disclosures.

In April 2010, FASB issued an amendment to Stock Compensation. The amendment clarifies that an employee stock-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity shares trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. We do not anticipate any impact from our adoption of this guidance since our stock-based payment awards have an exercise price denominated in the same currency of the market in which our Company shares are traded.

In December 2010, FASB issued an amendment to goodwill impairment test. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. We do not anticipate any impact from our adoption of this guidance since we do not have goodwill for any reporting unit that has zero or negative carrying amounts at December 31, 2010.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2010, FASB issued an amendment to the disclosure of supplementary pro forma information for business combinations. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted, but was not elected.

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 our consolidated financial statements upon adoption.

## 3. INVENTORIES

	December 31, 2010	December 31, 2009
Raw materials	\$ 1,443,188	\$ 1,408,230
Work-in-process	965,280	514,905
Finished goods	2,865,258	1,804,334
	5,273,726	3,727,469
Less: allowance	(49,173 )	(47,371 )
	\$ 5,224,553	\$ 3,680,098

## 4. LOAN RECEIVABLE

The Company loaned to a non-related company, Harbin Jinhuida Investment Consulting Limited, the amount of \$1,600,000 for one year term from October 30, 2008 to October 29, 2009 at a fixed interest rate of 10% per annum. On October 30, 2009 and again on October 30, 2010, the Company renewed the loan contract for one year periods at the same fixed interest rate of 10% per annum. The Company received interest income of \$160,000 for the years ended December 31, 2010 and 2009, and accrued interest income of \$26,667 and \$40,000 as of December 31, 2010 and 2009, respectively.

Prior to acquisition by the Company, Wuxi ZQ occasionally provided loans to other non-related companies and individuals in order to develop favorable business relationships. These loans are free of interest and due upon demand. As of December 31, 2010 and 2009, Wuxi ZQ had outstanding loans of \$498,987 and \$480,705, respectively. The Company has reserved full allowance against this loan receivable as of December 31, 2010 and 2009 for the outstanding loans made by Wuxi ZQ, based on evaluation of the collectability of these loans.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008

#### 5. OTHER RECEIVABLES

Other receivables generally consist of advances to employees and interest receivable.

#### 6. ADVANCES TO SUPPLIERS

The Company makes advances to certain suppliers for raw materials purchases. The net advances to suppliers were \$4,015,313 and \$7,940,129 as December 31, 2010 and 2009, respectively. The allowance for these advances was \$1,171,083 and \$275,379 as of December 31, 2010 and 2009, respectively.

#### 7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consisted of the following:

	As of December 31, 2010	As of December 31, 2009
B u i l d i n g a n d improvements	\$ 36,067,404	\$ 35,578,159
M a c h i n e r y a n d equipment	15,724,614	11,327,397
Motor Vehicles	919,471	285,999
	52,711,489	47,191,555
less: Accumulated Depreciation	(8,411,355)	(4,854,438)
Construction in Progress	13,152,110	4,911,483
Total property, plant and equipment, net	\$ 57,452,244	\$ 47,248,600

Depreciation expense for the years ended December 31, 2010, 2009 and 2008 was \$3,334,204, \$2,075,640 and \$646,415, respectively. Depreciation expense included in cost of goods sold for the years ended December 31, 2010, 2009 and 2008 was \$2,369,929, \$1,753,495 and \$336,303, respectively.

Construction in progress represents direct costs of construction and design fees incurred for the Company's new plant and equipment. Capitalization of these costs ceases and the construction in progress is transferred to plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until it is completed and ready for its intended use. No interest has been capitalized in construction in process as of December 31, 2010 as the amount is insignificant.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

8. INVESTMENT IN UNCONSOLIDATED ENTITY

In the fourth quarter of 2008, the Company entered into an equity investment agreement (“Agreement”) with Beyond E-Tech, Inc (BET) to acquire 49% of the issued and outstanding capital stock of BET for a total consideration of \$1,500,000. BET is a newly-organized company that imports and distributes cell phones in the United States. Pursuant to the Agreement, during any period of time when the Company is a shareholder of BET, BET shall exclusively market products for resale that use ABAT’s rechargeable polymer lithium-ion batteries.

The Company has significant influence on BET and therefore accounts for its investment in BET under the equity method. According to the Agreement, the Company has significant influence over the operating and financial policies of BET, including a right of approval of its operating budget, veto power over large capital expenses, and other management controls. Net loss on this investment using the equity method was \$8,197, \$17,401 and \$90,707 for the year ended December 31, 2010, 2009 and 2008, respectively.

The Company uses its best estimate of future cash flows expected to result from the use of this asset in accordance with ASC 480. There was no impairment loss for the year ended December 31, 2010. There were \$235,091 and \$371,743 impairment loss recognized on this investment for the year ended December 31, 2009 and 2008 because the estimated future undiscounted net cash flows related to this investment were less than the carrying amount.

9. DEPOSIT FOR INVESTMENT

On September 8, 2009, the Company’s board approved the execution of a letter of intent to acquire a battery company in Shenzhen. On January 6, 2011, Harbin Zhongqiang, a subsidiary of the Company, completed the acquisition of all of the assets of Shenzhen Zhongqiang New Energy Science & Technology Co., Ltd. (“Shenzhen Zhongqiang”) for a purchase consideration totaled RMB RMB135,000,000 (approximately \$20 million). The Company made an initial payment plus deposit of \$11,721,468 (equivalent to RMB 77,500,000) and \$1,457,034 (equivalent to RMB 10 million) as of December 31, 2010 and 2009, respectively, and recorded as deposit for investment. The Company completed the acquisition in January 2011.

10. DEPOSIT FOR LONG-TERM ASSETS

The Company entered into various agreements to purchase equipment and machinery in an effort to expand its production in 2010. As of December 31, 2010 and 2009, the Company made total deposits in the amount of \$2,307,350 and \$2,860,882. The Company expects to pay the remaining contract amount of approximately \$629,000 by the end of 2011. The deposit will be reclassified to the respective accounts under fixed assets upon delivery and transfer of legal titles and the assets being placed in service.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 11. INTANGIBLE ASSETS

Intangible assets consist of land use rights, patents and marketing network resources. All land in the People's Republic of China is government owned and cannot be sold to any individual or company. However, the government grants the user a "land use right" (the Right) to use the land and the power line underneath. The Company leases two pieces of land from the PRC Government for a period from August 2003 to September 2043, on which the office and production facilities of Heilongjiang ZQPT are situated. In addition, the Company also leases two pieces of land from the PRC Government for a period from July 2003 to July 2053 and from September 2002 to June 2057 respectively, on which the office and production facilities of Wuxi ZQ are situated. The Company leases the power lines from the local government for a period from July 2003 to July 2013.

Rights to use land and power and patent rights are stated at fair market value less accumulated amortization. The Company amortizes the patents over a 3-10 year period. The Company evaluates finite-lived intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets, other long-lived assets, and goodwill is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. As of December 31, 2010 and 2009, no impairment of intangible assets has been recorded.

Net intangible assets at December 31, 2010 were as follows:

	Initial Book Value	Accumulated Amortization	Net Book Value	Amortization Period (Years)
Rights to use land and power	\$ 13,094,085	\$ 591,703	\$ 12,502,382	48.6
Patents	1,172,612	172,771	999,841	9.0
Marketing network resource	1,000,038	558,396	441,642	3.0
Software	16,097	2,457	13,640	10
<b>Total</b>	<b>\$ 15,282,832</b>	<b>\$ 1,325,327</b>	<b>\$ 13,957,505</b>	

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 11. INTANGIBLE ASSETS (Continued)

Net intangible assets at December 31, 2009 were as follows:

	Initial Book Value	Accumulated Amortization	Net Book Value	Amortization Period (Years)
Rights to use land and power	\$ 13,065,389	\$ 381,539	\$ 12,683,850	48.6
Patents	1,224,986	369,040	855,946	9.0
Marketing network resource	1,000,037	222,330	777,707	3.0
<b>Total</b>	<b>\$ 15,290,412</b>	<b>\$ 972,909</b>	<b>\$ 14,317,503</b>	

Amortization expense was \$782,008, \$599,165 and \$120,820 for the years ended December 31, 2010, 2009 and 2008, respectively.

Based upon current assumptions, the Company expects that its intangible assets will be amortized according to the following schedule:

For the years ending December 31,	
2011	\$ 720,694
2012	490,993
2013	373,054
2014	370,848
2015	370,848
Thereafter	11,631,068
	<b>\$ 13,957,505</b>

## 12. GOODWILL

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired as result of the company acquiring the remaining 30% interest in Heilongjiang ZQPT in 2006. The Company applied step accounting by determining the implied fair value of goodwill by allocating the price paid to acquire the 30% minority interest to all of its assets and liabilities. As of December 31 2010, no impairment of goodwill was recorded.



ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

### 13. SHORT TERM BANK LOANS

In connection with the Company's acquisition of Wuxi ZQ in May 2009, it entered into two loan agreements in the aggregate amount of approximately \$7.3 million (equivalent to RMB50,000,000) with Huaxia Bank. Wuxi ZQ paid down one loan of \$4.4 million (equivalent to RMB30,000,000) during the year ended December 31, 2009 and another loan of \$2.9 million (equivalent to RMB20,000,000) during the year ended December 31, 2010.

There was loan payable of \$0 and \$2,916,071 (equivalent to RMB20,000,000) outstanding as of December 31, 2010 and 2009, respectively.

### 14. STOCK-BASED COMPENSATION

#### (1) 2004 Equity Incentive Plan

The Company adopted the 2004 Equity Incentive Plan (the "2004 Plan") on August 24, 2004. The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of the participants of the Plan (the "Participants") to those of the Company's stockholders, and by providing the Participants with an incentive for outstanding performance. The Company has reserved 5,000,000 shares of common stock for the options and awards under the Plan.

Subject to the terms and provisions of the Plan, the Board of Directors, at any time and from time to time, may grant shares of stock to eligible persons in such amounts and upon such terms and conditions as the Board of Directors shall determine.

The Committee appointed by the Board of Directors to administer the Plan shall have the authority to determine all matters relating to the options to be granted under the Plan including selection of the individuals to be granted awards or stock options, the number of stock, the date, the termination of the stock options or awards, the stock option term, vesting schedules and all other terms and conditions thereof.

The Company has issued all 5,000,000 shares provided in the Plan in the form of grants of restricted common stock. As of December 31, 2010, 2,370,000 of those shares had vested and no shares have been cancelled. A summary of the status of the Company's unearned stock compensation under the 2004 Equity Incentive Plan as of December 31, 2010, and changes for the year ended December 31, 2010, is presented below:

Unearned stock compensation as of January 1, 2010	\$1,837,934
Unearned stock compensation granted	-
Compensation expenses recorded on the statement of income with a credit to additional paid-in capital	(265,760 )
Unearned stock compensation as of December 31, 2010	\$1,572,174

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008

## 14. STOCK-BASED COMPENSATION (Continued)

In addition, the compensation cost recorded to additional paid-in capital in relation to shares issued to non-employee consultants under the 2004 Plan in prior years and current period was \$469,273. The Company's contracts with these consultants have terms ranging from 60 months to 120 months. All shares granted were fully vested and nonforfeitable at the date on which the Company entered into the consulting contract with each non-employee. However, following ASC 505-50-30-11 and 505-50-30-12, the Company has determined that the disincentives for nonperformance are not sufficiently large to establish a performance commitment, and that, accordingly, the measurement date for the shares is the date on which performance is complete, which is the date of grant. The Company has continued to account for the shares as a prepaid expense, amortized over the terms of the contracts. The compensation expense relating to shares issued to non-employee consultants for the years ended December 31, 2010, 2009 and 2008 was \$116,375, \$137,562 and \$309,237, respectively.

The following table shows the amortization of the unearned stock compensation relating to consulting contracts:

As of December 31	Amortization
2011	\$ 112,291
2012	60,236
2013	5,808
	\$ 178,335

## (2) 2006 Equity Incentive Plan

The Company adopted the 2006 Equity Incentive Plan (the "2006 Plan") on April 24, 2006. The 2006 Plan became effective on April 18, 2006. The number of shares available for grant under the 2006 Plan shall not exceed 8,000,000 shares and shares of stock and options may be granted to the eligible persons at the discretion of the Company's Board of Directors or the Committee administering the plan. Incentive stock options ("ISO"), nonqualified stock options ("NQSO"), or a combination thereof may be granted but ISOs can only be granted to the Company's employees. The Committee can also grant shares of restricted stock or performance shares (a performance share is equivalent in value to a share of stock) to eligible persons from time to time.

The exercise price for each ISO awarded under the 2006 Plan shall be equal to 100% of the fair market value of a share on the date the option is granted and be 110% of the fair market value if the eligible person owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporations. The exercise price of a NQSO shall be determined by the Committee in its sole discretion.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008

14. STOCK-BASED COMPENSATION (Continued)

No option shall be exercisable later than the tenth anniversary date of its grant and each option shall expire at such time as the Committee determines at the time of grant. The eligible person who owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporations shall exercise his/her option before the fifth anniversary date of its grant.

Options shall vest at such items and under such terms and conditions as determined by the Committee; provided, however, unless a different vesting period is provided by the Committee at or before the grant of an option, the options will vest on the first anniversary of the grant.

Options granted under the 2006 Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each participant.

The Company has issued 7,249,916 of the shares provided in the Plan in the form of grants of restricted common stock. As of December 31, 2010, 391,808 of those shares had vested and 3,000 shares have been cancelled. A summary of the status of the Company's unearned stock compensation under the 2006 Equity Incentive Plan as of December 31, 2010 is presented below:

Unearned stock compensation as of January 1, 2010	\$3,991,119
Unearned stock compensation granted	1,215,255
Compensation expenses recorded on the statement of operations with a credit to additional paid-in capital	(1,333,803)
Unearned stock compensation as of December 31, 2010	\$3,872,571

The following table shows the amortization of the unearned stock compensation relating to the 2006 Plan:

As of December 31	Amortization
2011	\$ 971,597
2012	233,363
2013	233,363
2014	233,363
2015	233,363
Thereafter	1,967,520
	\$ 3,872,571

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

14. STOCK-BASED COMPENSATION (Continued)

(3) Recent Stock-Based Compensation Activities

In January 2009, according to a five-year employment contract, the company issued 40,000 shares of common stock to one employee for the first year of employment.

In March 2009, the company issued 24,775 shares of common stock to two audit committee directors for one-year service as stock compensation.

On August 24, 2009, the Company issued 209,000 shares of restricted stock to 63 employees for one-year service as incentive stock compensation according to its 2006 equity plan.

In October 2009, according to a two-year employment contract, the company issued 20,000 shares to one employee for first year employment.

During the year ended December 31, 2009, there were 340,000 options granted for services. On January 1, 2009, the Company issued options to two senior executives to purchase a total of 340,000 shares of common stock at an exercise price of \$2.66 with a vesting period of one year. The fair value of each option was estimated to be \$2.29 as of the December 31, 2009 grant date. There were 340,000 shares of stock options outstanding as of December 31, 2010 and 2009. The fair value of stock options was calculated using a Black-Scholes option-pricing model with the following assumptions:

	5.0
Expected life	years
Expected volatility	89.13%
Risk free interest rate	2.46%
Dividend yield	0%

The risk-free interest rate is based on the U.S. Treasury zero-coupon rate. Expected volatility is estimated based on the Company's historical stock price using the expected life of the grant. Due to a lack of employee exercise behavior in the past, the expected life is based upon the maximum exercise period. The Company recorded total stock option compensation expense of \$0 and \$777,661 for the years ended December 31, 2010 and 2009, respectively.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 14. STOCK-BASED COMPENSATION (Continued)

The following table summarizes the stock option activities of the Company:

	Outstanding	Weighted Average Exercise Price	Options Outstanding Weighted Average Remaining Contractua Life (Years)	Aggregate Intrinsic Value	Options Exercisable Number exercisable	Weighted average exercise price
Outstanding at January 1, 2009	-	\$-	-	\$ -	-	\$ -
Granted	340,000	2.66	5.00	-	-	-
Exercised	-	-	-	-	-	-
Forfeited/Expired	-	-	-	-	-	-
Outstanding at December 31, 2009	340,000	\$2.66	4.00	\$ 571,200	340,000	\$ 2.66
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Forfeited/Expired	-	-	-	-	-	-
Outstanding at December 31, 2010	340,000	\$2.66	3.00	\$ 404,600	340,000	\$ 2.66

In January 2010, according to a two-year employment contract, the company issued 3,000 shares to one employee for first year employment. The aggregate fair value was \$12,030 on the grant date.

During the quarter ended March 31, 2010 the Company granted a total of 15,608 shares of common stock with an aggregate fair value of \$60,000 to two of its independent directors pursuant to their respective Service Agreements. These shares were issued in May 2010.

On September 21, 2010, the Company issued 300,500 shares to 84 employees for one-year service as incentive stock compensation according to its 2006 equity plan. The aggregate fair value was \$1,060,765 on grant date.

During the quarter ended December 31, 2010, the Company granted 25,000 shares of common stock with aggregate fair value of \$93,050 on the date of grant to two employees for one year service, the stocks were vested immediately. The Company also cancelled 3,000 shares of common stock during the quarter ended December 31, 2010 due to termination of employment with an employee.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 15. INCOME TAXES

The following table sets forth the components of the Company's income before income tax expense and the components of income tax expense.

	For The Years Ended December 31,		
	2010	2009 (Restated)	2008 (Restated)
China Pre-tax Income	\$ 43,060,834	\$ 22,633,511	16,507,297
Domestic Pre-tax Income	880,057	4,958,727	6,402,042
<b>Total Pre-tax Income</b>	<b>\$ 43,940,891</b>	<b>\$ 27,592,238</b>	<b>\$ 22,909,339</b>
<b>Current:</b>			
China Income Tax Expense	\$ 7,650,861	\$ 2,764,339	\$ 2,722,407
Domestic Income Tax Expense	-	-	-
<b>Total Current Income Tax Expense</b>	<b>\$ 7,650,861</b>	<b>\$ 2,764,339</b>	<b>\$ 2,722,407</b>
<b>Deferred:</b>			
China Income Tax Expense	\$ (436,288 )	\$ -	-
Domestic Income Tax Expense	-	3,025,847	-
<b>Total Deferred Income Tax Expense</b>	<b>\$ (436,288 )</b>	<b>\$ 3,025,847</b>	<b>\$ -</b>

Under the Income Tax Laws of the PRC, the Company is generally subject to tax at a statutory rate of 25% and was, until January 2008, subject to tax at a statutory rate of 33% (30% state income taxes plus 3% local income taxes) on its taxable income. However, HLJ ZQPT is located in a specially designated technology zone which allows foreign-invested enterprises a five-year income tax holiday. HLJ ZQPT enjoyed a two-year tax exemption through December 31, 2007, and enjoys an additional 50% income tax reduction from January 1, 2008 to December 31, 2010.

On March 16, 2007, National People's Congress passed a new corporate income tax law, which was effective on January 1, 2008. This new corporate income tax unifies the corporate income tax rate to 25%, and includes cost deductions and tax incentive policies for both domestic and foreign-invested enterprises in China. According to the new corporate income tax law, the applicable corporate income tax rate of the HLJ ZQPT decreased to 12.5% from 2008 to 2010.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 15. INCOME TAXES (Continued)

A reconciliation of tax at United States federal statutory rate to provision for income tax recorded in the financial statements is as follows:

	For The Years Ended December 31,		
	2010	2009 (Restated)	2008 (Restated)
U.S. statutory income tax rate	35.0%	35.0%	35.0%
Foreign income not recognized in the U.S.	-35.0%	-35.0%	-35.0%
China Statutory income tax rates	25.0%	25.0%	25.0%
China income tax exemption	-7.8%	-12.5%	-12.5%
Parent companies' income not subject to China tax	-1.0%	8.5%	-0.6%
Realization of Wuxi ZQ net operating loss carryforward	-0.5%	0.0%	0.0%
Other items	0.7%	0.0%	0.0%
Effective consolidated current income tax rate	16.4%	21.0%	11.9%

The estimated tax savings as a result of our tax holidays for the years ended December 31, 2010, 2009 and 2008 amounted to \$3,441,368, \$2,764,339 and \$2,422,407, respectively. The net effect on earnings per share had the income tax been applied would decrease basic earnings per share for the years ended December 31, 2010, 2009 and 2008 from \$0.53 to \$0.48, from \$0.42 to \$0.37 and from \$0.46 to \$0.41, respectively.

The Company was incorporated in the United States. It incurred a net operating loss for U.S. income tax purposes for the years ended December 31, 2010, 2009 and 2008. The net operating loss carry forwards, including amortization of share-based compensation but excluding change in fair value of warrants, for United States income tax purposes amounted to \$8,137,837, \$4,353,388 and \$2,311,230 for the years ended December 31, 2010, 2009 and 2008, respectively, which may be available to reduce future years' taxable income. These carry forwards will expire, if not utilized, beginning in 2027 through 2030. There are also deferred tax asset of \$272,181 as of December 31, 2010 and 2009, resulting from temporary difference on stock options to employees. For United States income tax purposes, the valuation allowances for the years ended December 31, 2010 and 2009 were \$3,120,424 and \$1,574,660, respectively.

In addition, there are net operating loss carry-forwards from Wuxi ZQ for the year ended December 31, 2009. Management believed that the realization of the benefits arising from these losses appear to be uncertain due to Wuxi ZQ's limited operating history. Accordingly, the Company has provided a 100% valuation allowance at December 31, 2009 for the temporary difference related to loss carry-forwards. For PRC income tax purposes, the valuation allowance was \$3,074,202 as of December 31, 2009. The entire benefits from the net operating loss carry-forwards are realized during the year ended December 31, 2010 since Wuxi ZQ has taxable income for the year.

The change in valuation allowance for the years ended December 31, 2010 and 2009 were \$(1,749,645) and \$4,061,138.

F-59

---



ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008

## 15. INCOME TAXES

The following table sets forth the components of deferred income taxes as of December 31, 2010 and 2009:

	As of Years Ended December 31,	
	2010	2009 (Restated)
Wuxi ZQ net operating loss carryforward	\$ -	\$ 3,074,202
Allowance for doubtful accounts	447,305	-
Stock options to employees	272,181	272,181
U.S. parent company net operating loss carryforward	2,848,243	1,523,686
	<u>3,567,729</u>	<u>4,870,069</u>
Valuation allowance	(3,120,424)	(4,870,069)
Total deferred tax asset	\$ 447,305	\$ -
Gain on bargain purchase of Wuxi ZQ	3,025,847	3,025,847
Total deferred tax liability	\$ 3,025,847	\$ 3,025,847

Deferred income taxes have been classified in the consolidated balance sheets as of December 31, 2010 and 2009 as follows:

	As of Years Ended December 31,	
	2010	2009
Current asset	\$ 447,305	\$ -
Non-current liabilities	\$ 3,025,847	\$ 3,025,847

## 16. EARNINGS PER SHARE

Earnings per share is determined by dividing net income for the periods by the weighted average number of both basic and diluted shares of common stock and common stock equivalents outstanding pursuant to ASC 260, "Earnings Per Share." The following are the calculations for earnings per share for the years ended December 31, 2010, 2009 and 2008.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 16. EARNINGS PER SHARE (Continued)

	For the Year Ended December 31,		
	2010	2009 (Restated)	2008 (Restated)
Basic earnings per share			
Net Income	\$ 36,726,318	\$ 21,802,052	\$ 20,186,932
Weighted average number of common share outstanding - Basic	69,260,213	52,124,814	43,493,492
Earnings per share - Basic	\$ 0.53	\$ 0.42	\$ 0.46
Diluted earnings per share			
Net Income	\$ 36,726,318	\$ 21,802,052	\$ 20,186,932
Weighted average number of common shares outstanding - Basic	69,260,213	52,124,814	43,493,492
Effect of conversion of preferred stock	528	30,093	-
Effect of exercise of options	96,378	430,280	-
Effect of diluted securities - unvested shares	7,047,332	7,637,500	8,178,500
Weighted average number of common shares outstanding - Diluted	76,404,451	60,222,687	51,671,992
Earnings per share - Diluted	\$ 0.48	\$ 0.36	\$ 0.39

At December 31, 2010, 2009 and 2008, the Company had outstanding warrants of 10,950,113, 6,825,113 and 2,592,945, respectively. Warrants were excluded in the diluted earnings per share calculation as the stock market price is below warrants' exercise price and were anti-dilutive for the years ended December 31, 2010, 2009 and 2008.

## 17. EQUITY PLACEMENTS

## 1) 2010 Financing Activity

On December 3, 2010 the Company sold 7,500,000 shares of common stock and 3,750,000 common stock purchase warrants (the "Warrants") pursuant to a Securities Purchase Agreement made as of November 29, 2010. The purchasers were institutional funds.

The aggregate purchase price for the securities was \$30,000,000. From the proceeds of the offering, the Company paid a fee of \$1,500,000 to Rodman & Renshaw, LLC ("Rodman"), which acted as the placement agent for the offering. The Company will also reimburse Rodman for its out-of-pocket expenses, and issued to Rodman warrants to purchase 375,000 shares of common stock. Upon any exercise of Warrants issued in the offering that is solicited by Rodman, the Company will pay five percent of the exercise price to Rodman, subject to compliance with FINRA Rule 5110. Offering costs totaling \$1,528,500 are netted with proceeds received.

F-61

---

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

17. EQUITY PLACEMENTS (Continued)

The Warrants will permit the holders to purchase up to 3,750,000 shares of common stock from the Company for a period of one year and one week at a price of \$4.00 per share. The warrants to be issued to Rodman may be exercised for a price of \$5.00 per share for a period of three years. Cashless exercise of either warrant is permitted only if there is no effective registration statement permitting resale of the common shares underlying the Warrants.

The Company has also determined that both the Investor Warrants and the Placement Agent Warrants issued in the 2010 Financing met the conditions for equity classification pursuant to ASC 815 "Derivatives and Hedging" and ASC 815-40 "Contracts in Entity's Own Equity" and therefore have been classified as equity instruments on the consolidated balance sheet as of December 31, 2010.

Common stock outstanding as of December 31, 2010 totaled 76,424,639 shares.

2) Issuance of Preferred Stock

As of December 31, 2010, there were 2 shares of the preferred stock outstanding. The shares have a liquidation preference of \$1,000 each and are each convertible into 264 shares of common stock.

3) 2008 and 2009 Placements

During 2008 and 2009 the Company completed three placements of securities:

August 2008 Offering

On August 8 and August 15, 2008, the Company issued 5,058,834 shares of common stock and warrants to purchase a total of 2,276,474 shares of common stock to eight accredited institutional funds. The Company also issued to the Placement Agent warrants to purchase 316,471 shares of common stock. All the Warrants issued in August 2008 offering permit the holders to purchase common stock from the Company for a price of \$5.51 per share. The Warrants expire in five years.

June 2009 Offering

On June 1 and June 15, 2009, the Company issued a total of 17,000 shares of preferred stock, consisting of 10,000 shares of Series E preferred stock ("Series E") and 7,000 shares of Series F preferred stock ("Series F"), to several accredited investors. The aggregate purchase price for the securities was \$17,000,000 and the preferred stock could be converted into a total of 4,388,522 shares of common stock of the Company. Each Preferred Share is entitled to a preferential payment of \$1,000 in the event of a liquidation of the Company. From the proceeds of the offering, the Company paid a fee of \$850,000 to the Placement Agent for the offering. The Company also reimbursed the Placement Agent for its out-of-pocket expenses totaling \$58,132, and issued to the Placement Agent warrants to purchase 219,426 shares of common stock. The Company realized net proceeds of \$16,091,868 from the offering.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

17. EQUITY PLACEMENTS (Continued)

During the third quarter of 2009, 16,500 shares of the convertible preferred stock were converted into 4,256,595 shares of common stock. During the fourth quarter of 2009, 498 shares of the convertible preferred stock were converted into 131,398 shares of common stock. As of December 31, 2009, there were 2 shares of the preferred stock outstanding.

In connection with the offering of preferred stock, the Company issued warrants A and B to purchase a total of 6,450,854 shares of common stock of the Company for prices ranging from \$3.79 to \$5.68 per share. The warrants issued in the June 2009 offering consist of:

Series A Warrants

Series A Common Stock Purchase Warrants permit the holder to purchase 1,319,261 shares of common stock for \$4.92 per share at any time before November 27, 2014 and 875,000 shares of common stock for the same price at any time before December 12, 2014.

Series B Warrants

Series B Common Stock Purchase Warrants permit the holder to purchase 2,638,523 shares of common stock for \$3.79 per share at any time before November 27, 2009 and 1,750,000 shares of common stock for \$4.00 per share any time before December 9, 2009. During December 2009, certain holders exercised 1,722,622 Series B Warrants for the same amount of common stock and paid the Company \$6,679,499. As of December 31, 2009, there was no outstanding Series B Warrants because they are either exercised or expired.

Series C Warrants

Series C Common Stock Purchase Warrants permit the holders to purchase shares of ABAT's common stock for \$5.68 per share at any time before November 27, 2014 or before December 12, 2014, depending on the issue date of the warrant. The number of shares for which the Series C Warrants may be exercised equals 25% of the number of Series B Warrants exercised by the Holder. Accordingly, at December 31, 2009 there were outstanding 179,750 Series C Warrants to purchase 179,750 shares that will expire on November 27, 2014 and Series C Warrants to purchase 250,907 shares that will expire on December 12, 2014.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 17. EQUITY PLACEMENTS (Continued)

## October 2009 Offering.

On October 5, 2009 the Company sold 4,592,145 shares of common stock and 1,377,644 common stock purchase warrants pursuant to a Securities Purchase Agreement made on September 30, 2009. The aggregate purchase price for the securities was \$19,000,001. Each Warrant will permit the holder to purchase one share of common stock from the Company for the price of \$4.70 per share. The Warrants will expire in five years from the date of the Agreement. The Company paid a fee of \$950,000 to the Placement Agent for the offering. The Company also reimbursed the Placement Agent for its out-of-pocket expenses, and issued to the Placement Agent warrants to purchase 229,608 shares of common stock with a term of five years and an exercise price of \$5.17

Following is a summary of the status of warrants activities as of December 31, 2010:

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	2,592,945	\$ 5.51	3.58	\$ -
Issued	8,620,691	4.40	4.91	-
Exercised	(1,722,622 )	3.91	-	-
Forfeited/Expired	(2,665,901 )	3.85	-	-
Outstanding at December 31, 2009	6,825,113	\$ 5.16	4.50	\$ -
Issued	4,125,000	4.09	1.12	-
Exercised	-	-	-	-
Forfeited/Expired	-	-	-	-
Outstanding at December 31, 2010	10,950,113	\$ 4.75	2.30	\$ -

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

17. EQUITY PLACEMENTS (Continued)

4) Accounting for Warrants

Both the Investor Warrants and the Placement Agent Warrants contain a covenant that, in the event of a “fundamental transaction,” if the securities to be issued upon exercise of the warrants will not be listed on a national securities exchange, the warrant holder has the option to force the Company to purchase the warrants at present value. The warrants define a “fundamental transaction” to include:

- i. any merger, sale of assets, tender or exchange offer, reclassification of the common stock or compulsory share exchange, if
- ii. the transaction is either an all-cash transaction, a “going private” transaction, or a transaction in which the Company’s common stock will be exchanged for securities that are not traded on a national securities exchange.

Under those circumstances, the warrant holder could require the Company to redeem the warrant by paying an amount of cash equal to the value of the Warrant on the date preceding the fundamental transaction, determined in accordance with the Black-Scholes Option Pricing Model. Because, under those circumstances, the Company would be forced to settle the warrants in cash, the warrants do not meet the conditions for equity classification set forth in FASB ASC 815-40-15. Therefore, these warrants have been classified as warrant liability.

For the foregoing reasons, the fair value of the warrants was recorded as an offset to the equity recorded as a result of the offerings. The fair value of the warrants was determined in the following manner:

August 2008 Offering. The fair value of the warrants at the grant date was calculated using the Black-Scholes options pricing model using the following assumptions: Volatility 73.06%, Risk free interest rate 3.27% for August 8, 2008 Placement and August, 15, 2008 Placement, and Expected term of 5 years. The fair value of those warrants at the grant date was calculated at \$7,520,805.

June 2009 Offering. The fair value of the warrants at the grant date was calculated using the Black-Scholes options pricing model using the following assumptions: Volatility: 91.50%; Risk free interest rate: 2.55% and 0.29% for Series A and Series B&C warrants, respectively with respect to June 1, 2009 issuance and 2.69% and 0.31% for Series A and Series B&C warrants, respectively with respect to June 15, 2009 issuance; Expected term: 5.5 years for Series A Warrant and 0.5 years for Series B warrants. The fair value of those warrants at the grant date was calculated at \$9,514,432. In addition, 430,656 Series C Warrants, whose exercisability was contingent on exercise of Series B Warrants, vested in December 2009. The fair value of the warrants at the grant date was calculated using the Black-Scholes options pricing model using the following assumptions: Volatility: 90.9%; Risk free interest rate: 2.24%, Expected term: 5.0 years. The fair value of those warrants at the grant date was calculated at \$997,887.

October 2009 Offering. The fair value of the warrants at the grant date was calculated using the Black-Scholes options pricing model using the following assumptions: Volatility: 89.08%; Risk free interest rate: 2.21%; Expected term: 5.0 years. The fair value of those warrants at the grant date was calculated at \$4,242,032.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008

## 17. EQUITY PLACEMENTS (Continued)

The following table indicates the contributions to equity of each of the four securities offerings:

Offering	Net Proceeds	Warrants - Fair Value	Equity
August 2008	\$ 20,356,481	\$ 7,520,805	\$ 12,835,676
June 2009	23,067,535	10,512,319	12,555,216
October 2009	18,017,350	4,242,032	13,775,318
December 2010	28,471,500	-	28,471,500

The fair value of outstanding warrants was \$11,749,803 and \$17,221,335 as of December 31, 2010 and 2009. The fair value of the warrants was calculated using the Black-Scholes options pricing model using the following assumptions:

	As of December 31, 2010		As of December 31, 2009		As of December 31, 2008	
Volatility	74.92	%	90.9	%	82.6	%
Risk free interest rate	2.01	%	2.69	%	1.72	%
Expected term	2.66 – 4.00 years		3.66 - 5.00 years		4.61 years	

The change in fair value of warrants was recorded as other loss or income for the years ended December 31, 2010, 2009 and 2008.

## Stock Repurchase Program

On December 8, 2008, the Board of Directors approved a stock repurchase program. The Company repurchased 194,581 shares as treasury stock as of December 31, 2009.

## 18. CONCENTRATION OF RISKS

The Company maintains certain bank accounts in the PRC which are not protected by FDIC insurance or other insurance. Cash balances held in PRC bank accounts were \$81,738,623 and \$43,868,543 as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, the Company held \$29,379,473 and \$9,054,816 of cash balances within the United States of which \$28,540,747 and \$8,222,219 was in excess of FDIC insurance limits, respectively.

Four major customers accounted for approximately 24.3% of the net revenue for the year ended December 31, 2010, with the customers individually accounting for 6.9%, 6.8%, 5.3% and 5.2%, respectively. At December 31, 2010, the total receivable balance due from these customers was \$2,338,250 representing 14.5% of total accounts receivable. Four major customers accounted for approximately 29.5% of the net revenue for the year ended December 31, 2009, with each customer individually accounting for 13.1%, 6.7%, 5.1% and 4.6%, respectively. At December 31, 2009, the total receivable balance due from these customers was \$5,652,914, representing 34.8% of total accounts receivable. Four major customers accounted for 47.1% of the net revenue for the year ended December 31, 2008. At



December 31, 2008, the total receivable balance due from these customers was \$4,138,089, representing 28.1% of total accounts receivable.

F-66

---

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

18. CONCENTRATION OF RISKS(Continued)

Five major vendors provided approximately 42.2% of the Company's purchases of raw materials for the year ended December 31, 2010, with the vendors individually accounting for 13.7%, 8.7%, 7.3%, 6.8%, and 5.7%, respectively. The Company's accounts payable to these vendors was \$1,150,973 as of December 31, 2010. Four major vendors provided approximately 33.1% of the Company's purchases of raw materials for the year ended December 31, 2009, with each vendor individually accounting for 12.8%, 7.7%, 7.5% and 5.2%, respectively. The Company's accounts payable to these vendors was \$0 as of December 31, 2009, representing 0% of total accounts payable. Four vendors provided around 55.6% of the Company's purchase of raw materials for the year ended December 31, 2008, with each vendor individually accounting for 20.5%, 12.8%, 11.8% and 10.5%, respectively. The Company's accounts payable to these vendors was \$70,408 as of December 31, 2008.

19. LITIGATION

Sui-yang Huang VS. ABAT

On September 30, 2009, the Company was named as a defendant in an action filed in the United States District Court for the Southern District of New York (the "U.S. District Court"). The action, brought by the Company's former Chief Technological Officer, Mr. Sui-yang Huang, alleges that based on his employment contract, he should have been paid certain additional stock-based benefits by November 30, 2008; in an Amended Complaint filed in November 2009, Mr. Huang also purported to state ancillary quasi-contract and tort claims related to his contract claim and his eventual dismissal from the Company. Mr. Huang's Amended Complaint demanded between approximately \$1.25 and \$5 million in compensatory damages, plus an unspecified amount of punitive and other damages. The Company believes that all of Mr. Huang's claims are without merit.

The Company filed a motion to dismiss the Amended Complaint, both on forum non conveniens grounds and for failure to state a claim for relief. On May 26, 2010, the Court granted the Company's motion to dismiss on forum non conveniens grounds. The dismissal is subject to the following conditions: (a) Mr. Huang is able, if he so chooses, to bring a similar action against the Company in a court near his residence in China, (b) the Chinese forum accepts jurisdiction over the dispute, and (c) the Company agrees to (1) consent to a Chinese court's jurisdiction for these civil actions, (2) toll any applicable statute of limitations for 120 days after the Court's dismissal on forum non conveniens grounds, (3) make available in the courts of China any evidence or witnesses in its possession, custody, or control in the United States that a Chinese court hearing these cases may deem relevant, and (4) pay any final, post-appeal judgment awarded against it by a Chinese court. Huang did not file a notice of appeal of the Court's order dismissing the action.

Thereafter, on August 9, 2010 Mr. Huang refiled part, but, not all, of his claims in the People's Court of Bao'an District, Shenzhen (the "Chinese Trial Court"). The Chinese Trial Court ultimately refused to accept the case, holding that since the Company is incorporated in the United States (and, specifically, in New York), it was not subject to the jurisdiction of that Court. Huang appealed, but the appeal was dismissed and the original decision of the Chinese Trial Court was affirmed. The case was thereafter sent back to the U.S. District Court from China. In March 2011 the United States District Court denied Mr. Huang's request to reinstate the case in New York, finding that jurisdiction remains available in China.



ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

19. LITIGATION (Continued)

SFG VS. ABAT

In September 2008, Susquehanna Financial Group, LLLP (“SFG”) commenced an action against the Company in the Court of Common Pleas of Montgomery County, Pennsylvania. SFG alleges that it was a party to two contracts with the Company, pursuant to which SFG alleges that it was entitled to serve as financial advisor with respect to any offering of securities by the Company completed prior to March 2009. SFG alleges that the Company failed to afford SFG the opportunity to serve as its financial advisor in connection with the private placement by the Company in August 2008. SFG alleges that it is entitled to damages in the amount of \$1,359,872 and a warrant to purchase 81,882 share of the Company’s common stock exercisable at \$8.00 per share. The Company has answered the complaint and denied that SFG was entitled to serve as financial advisor in connection with the August 2008 private placement by reason of the fact that SFG had terminated its agreements with the Company and had waived any continuing rights under the contracts, and had acted in bad faith in connection with the services it undertook to perform for the Company. The Parties are currently in the midst of the discovery process. Once discovery is complete, the Court will issue a schedule for the trial date.

20. COMMITMENTS AND CONTINGENCIES

The Company’s operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in the North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company’s results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

The Company’s sales, purchases and expenses transactions are denominated in RMB and all of the Company’s assets and liabilities are also denominated in RMB. The RMB is not freely convertible into foreign currencies under the current law. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People’s Bank of China, the central bank of China. Remittances in currencies other than RMB may require certain supporting documentation in order to affect the remittance.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 20. COMMITMENTS AND CONTINGENCIES (Continued)

The Company entered into various agreements to purchase equipment and machinery in an effort to expand its production in 2010. As of December 31, 2010, the Company made a total down payment of \$2,307,350 on those long-term assets. Additionally, the Company entered into several contracts and already made payment of \$13,152,110 for ongoing construction projects. The Company still has the commitment to pay the remaining contract amount of \$4.64 million in 2011.

The Company entered into a lease agreement with Pantheon Realty, Inc. to lease its prior administrative office. Under the agreement, the Company is obligated to pay \$4,000 monthly from June 1, 2009 to May 31, 2011. The Company entered into another lease agreement with 15 W 39 th St. NY LLC to lease its administrative office in New York City from June 1, 2009 to May 31, 2012. Under the agreement, the Company is obligated to pay \$8,000, \$8,200 and \$8,405 monthly for the first, second and third year, respectively.

## 21. RELATED PARTY TRANSACTIONS

In July 2009, the Company signed a lease agreement with the Chairman of the Company, Mr Zhiguo Fu, to lease a house owned by Mr. Fu for the purpose of accommodating the frequent travel lodging needs for the Company's employees in China traveling to the U.S. The monthly rent is \$4,000 and the lease will expire in three years.

Rental expense under the lease agreement for the US office and the lease from the Chairman for each year is as follows:

For the years e n d i n g December 31,	Third Party Lease	Related Party Lease	Total
2011	\$ 99,835	\$ 48,000	\$ 147,835
2012	42,025	24,000	66,025
	\$ 141,860	\$ 72,000	\$ 213,860

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008

## 22. SEGMENT INFORMATION

The Company follows the provisions of ASC 280, "Segment Reporting," which establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company's chief operating decision maker has been identified as the Chief Executive Officer.

The Company has two operating segments, which are batteries and electric vehicles segments.

The batteries segment develops, manufactures, and markets rechargeable Polymer Lithium-Ion (PLI) products. The batteries segment includes the operation of Heilongjiang ZQPT.

The electric vehicles segment develops and manufactures various types of electric vehicles through the operation of Wuxi ZQ. Wuxi ZQ owns three types of products listed in the E-Bike directory, with more than 20 different specifications, including electric bicycles, electric scooters, and various electric sports utility vehicles. Wuxi ZQ products are exported to the countries and regions in Europe, the United States and Asia.

The measurement of segment income is determined as earnings before income taxes. The measurement of segment assets is based on the total assets of the segment, including intercompany advances among the PRC entities. Segment income and segment assets are reported to the Company's chief operating decision maker ("CODM") using the same accounting policies as those used in the preparation of these consolidated financial statements. Historically, there have been sale transactions between the two operating segments in addition to intersegment advances.

For the Year Ended December 31, 2010	Batteries	Electric Vehicles	Non-operating entities	Inter-segment Elimination	Consolidated Total
Net Sales	\$ 59,366,331	\$ 49,199,892	\$ -	\$ (11,437,555 )	\$ 97,128,668
Interest Income (expense)	178,823	3,200	180,325	-	362,348
Depreciation and Amortization	1,528,921	1,684,996	52,505	849,790	4,116,212
Segment assets	131,079,212	58,867,540	178,113,198	(140,461,480)	227,598,470
Segment net income (loss) before tax	27,523,123	15,745,758	1,544,890	(872,880 )	43,940,891

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008  
 22. SEGMENT INFORMATION (Continued)

Reconciliation of segment incomes to consolidated incomes	For the Year Ended December 31, 2010
Total segment income (Operating entities)	\$ 43,268,881
Total segment income (Non-operating entities) (1)	1,544,890
Elimination of intersegment profits	(872, 880 )
Consolidated income before income taxes	43,940,891

Reconciliation of segment assets to consolidated assets	As of December 31, 2010
Total segment net assets (Operating entities)	\$ 189,946,752
Total segment net assets (Non-operating entities) (2)	178,113,198
Elimination of intersegment receivables	(148,745,044 )
Increased asset value not allocated to segments	8,283,564
Consolidated assets	227,598,470

For the Year Ended December 31, 2009 (Restated)	Batteries	Electric Vehicles	Non-operating entities	Inter-segment Elimination	Consolidated Total
Net Sales	48,271,642	20,329,896	-	(5,039,613 )	63,561,925
Interest Income (expense)	92,818	(496,125 )	192,985		(210,322 )
Depreciation and Amortization	1,036,771	1,017,986	12,694	562,192	2,629,643
Segment assets	91,031,626	45,311,073	110,465,225	(88,981,570)	157,826,354
Segment net income (loss) before tax	22,114,711	(203,897 )	(3,675,721 )	9,357,144	27,592,238

Reconciliation of segment incomes to consolidated incomes	For the Year Ended December 31, 2009 (Restated)
---	---

Total segment income (Operating entities)	21,910,815
Total segment income (Non-operating entities)	(3,675,721)
Elimination of intersegment profits	711,868
Gain on bargain purchase	8,645,276
Consolidated income before income taxes	27,592,238

F-71

---



ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010, 2009 AND 2008

## 22. SEGMENT INFORMATION (Continued)

Reconciliation of segment assets to consolidated assets	As of December 31, 2009
Total segment net assets(Operating entities)	136,342,699
Total segment net assets (Non-operating entities)	110,465,225
Elimination of intersegment receivables	(98,114,925)
Increased asset value not allocated to segments	9,133,355
Consolidated assets	157,826,354

- (1) “Non-operating entities” identifies our U.S. parent corporation, Advanced Battery Technologies, Inc., and its subsidiary holding company, Cashtech Investment Limited, a British Virgin Islands corporation. “Segment income (Non-operating entities)” refers to the administrative expenses of those two entities, including the expenses attributable to our New York City office, other income/expenses arising from financing activities conducted by the parent corporation, such as “change in fair value of warrants, and other income/expenses arising from investment and acquisition activity by the parent corporation, such as “gain on bargain purchase.
- (2) “Segment net assets (Non-operating entities”) refers to the net assets of the non-operating entities identified in the preceding note, and includes the book value of the two subsidiaries of Cashtech Investment Limited, which are our two operating companies, as well as cash accounts maintained by our parent company.

## 23. DISCLOSURE OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

## Quarterly Financial information – 2010

The table below summarizes the quarterly financial information for 2010.

Year 2010	March 31	June 30	September 30	December 31
Revenues	\$ 19,549,017	\$ 22,835,358	\$ 25,930,885	\$ 28,813,408
Gross profits	9,615,701	11,039,218	13,760,826	11,481,144
Operating income	6,999,752	9,046,388	12,019,672	9,783,652
Other income (expenses)				
- Gain on bargain purchase	-	-	-	-
Other income (expenses)				
- Change in fair value of warrants	1,205,874	4,191,406	(128,176 )	202,427
Income tax - current	747,152	810,875	902,558	5,190,276
Income tax - deferred	-	-	-	(436,288 )
Net income	7,524,573	12,510,240	11,127,394	5,564,111

Edgar Filing: ADVANCED BATTERY TECHNOLOGIES, INC. - Form 10-K

Income per share - basic	\$ 0.12	\$ 0.20	\$ 0.18	\$ 0.08
Income per share - diluted	\$ 0.11	\$ 0.18	\$ 0.16	\$ 0.07
Outstanding shares - basic	61,538,798	61,549,661	62,587,469	71,204,530
Outstanding shares - diluted	68,694,761	68,661,790	69,723,408	78,362,071

F-72

---

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## Quarterly Financial information – 2009

The table below summarizes the quarterly financial information for 2009.

Year 2009	March 31 (Restated)	June 30 (Restated)	September 30 (Restated)	December 31 (Restated)
Revenues	\$ 10,685,737	\$ 13,771,583	\$ 17,714,278	\$ 21,390,327
Gross profits	5,034,548	6,312,983	7,627,050	9,417,866
Operating income	4,138,230	3,648,476	5,244,112	5,123,159
Other income (expenses)				
- Gain on bargain purchase	-	8,645,276	-	-
Other income (expenses)				
- Change in fair value of warrants	464,686	(4,976,178 )	269,943	4,908,389
Income tax - current	602,482	681,211	726,337	754,309
Income tax - deferred	-	3,025,847	-	-
Net income	4,064,983	3,456,341	5,086,020	9,194,708
Income per share - basic	\$ 0.09	\$ 0.07	\$ 0.10	\$ 0.15
Income per share - diluted	\$ 0.07	\$ 0.06	\$ 0.08	\$ 0.14
Outstanding shares - basic	47,055,374	48,901,584	52,970,305	59,390,317
Outstanding shares - diluted	54,692,784	58,056,619	61,342,040	67,368,345

## 24. RESTATEMENT - 2009 and 2008

## Restatements

We have restated the consolidated financial statements for the years ended December 31, 2009 and 2008, and for the quarters ended September 30, 2008, March 31, 2009, June 30, 2009 and September 30, 2009. The reasons for the restatements are :

- A. Both Investor Warrants and Placement Agent Warrants were originally treated as equity and included in the Additional Paid-in Capital. However, both the Investor Warrants and the Placement Agent Warrants contain a covenant that, in the event of a “fundamental transaction,” if the securities to be issued upon exercise of the warrants will not be listed on a national securities exchange, the warrant holder has the option to force the Company to purchase the warrants at present value. The warrants define a “fundamental transaction” to include:



ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

24. RESTATEMENT - 2009 and 2008 (Continued)

- i. any merger, sale of assets, tender or exchange offer, reclassification of the common stock or compulsory share exchange, if
- ii. the transaction is either an all-cash transaction, a “going private” transaction, or a transaction in which the Company’s common stock will be exchanged for securities that are not traded on a national securities exchange.

Under those circumstances, the warrant holder could require the Company to redeem the warrant by paying an amount of cash equal to the value of the Warrant on the date preceding the fundamental transaction, determined in accordance with the Black-Scholes Option Pricing Model. Because, under those circumstances, the Company would be forced to settle the warrants in cash, the warrants do not meet the conditions for equity classification set forth in FASB ASC 815-40-15. Therefore, after reviewing the terms of the warrants and the applicable accounting principles, the Company determined that these warrants should be classified as warrant liability. As a result of this change, the Company has reevaluated the fair value of the warrant liabilities for the year ended December 31, 2008 and for each of the quarters ended September 30, 2008, March 31, 2009, June 30, 2009 and September 30, 2009 and adjusted the warrants to their respective fair value through earnings for each reporting period.

B. The Company improperly accounted for \$1.2 million in undisclosed liabilities of Wuxi Angell Autocycle Co., Ltd., which it acquired on May 4, 2009. The liabilities were recorded as general and administrative expenses in the Company’s financial statements. They should, instead, have been recorded as a reduction to the Gain on Bargain Purchase that the Registrant reported as a result of the acquisition. As a result of this change, the Company has increased the operating income and reduced the gain on bargain purchase for the year ended December 31, 2009 and the quarters ended June 30, 2009 and September 30, 2009, with resulting changes to the deferred tax liability.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 24. RESTATEMENT - 2009 and 2008 (Continued)

## Financial Statements for 2009 and 2008

The effect of the restatements on the financial statements for the years ended December 31, 2009 and 2008 are set forth below:

Balance Sheet as of:	December 31, 2009		December 31, 2008	
	As reported	As restated	As reported	As restated
Deferred tax liability	\$ 3,468,262	\$ 3,025,847	\$ -	\$ -
Warrant liability	17,221,335	17,221,335	-	3,429,992
Additional paid in capital	74,114,122	70,018,938	32,289,991	31,769,186
Retained earnings	52,752,687	57,285,914	31,393,050	35,483,862
Total stockholders' equity	131,932,431	132,374,846	76,454,596	73,024,603

Statements of Operations for the year ended:	December 31, 2009		December 31, 2008	
	Selling, general and admin.	11,154,217	9,890,173	3,263,409
Operating income	16,889,933	18,153,977	18,781,629	18,781,629
Gain on bargain purchase	9,909,320	8,645,276	-	-
Change in fair value of warrants	666,839	666,839	-	4,090,812
Total other income (expenses)	10,702,305	9,438,261	36,898	4,127,710
Income tax - current	2,764,339	2,764,339	2,722,407	2,722,407
Income tax - deferred	3,468,262	3,025,847	-	-
Net income	21,359,637	21,802,052	16,096,120	20,186,932
Earnings per share - Basic	\$ 0.41	\$ 0.42	\$ 0.37	\$ 0.46
Earnings per share - Diluted	\$ 0.35	\$ 0.36	\$ 0.31	\$ 0.39

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 24. RESTATEMENT - 2009 and 2008 (Continued)

## Quarterly and Interim Financial Statements - 2009

The impact of the restatement on the financial statements for the interim quarterly periods of 2009 as previously reported is summarized below:

Year 2009	March 31		June 30		September 30		December 31	
	As Reported	As Restated	As Reported	As Restated	As Reported	As Restated	As Reported	As Restated
Total Assets	\$82,705,276	\$82,705,276	\$133,641,097	\$133,641,097	\$137,094,057	\$137,094,057	\$157,826,354	\$157,826,354
Warrant liability	-	2,965,306	-	17,455,917	-	17,185,974	17,221,335	17,221,335
Deferred tax liability	-	-	3,468,262	3,025,847	3,468,262	3,025,847	3,468,847	3,025,847
Additional paid-in capital	39,602,197	32,081,392	66,097,910	49,062,673	66,740,056	49,704,819	74,114,122	70,018,938
Retained earnings	35,458,033	39,548,846	42,983,451	43,005,186	43,557,979	48,091,206	52,752,687	57,285,914
Revenues	10,685,737	10,685,737	13,771,583	13,771,583	17,714,278	17,714,278	21,390,327	21,390,327
Gross profits	5,034,548	5,034,548	6,312,983	6,312,983	7,627,050	7,627,050	9,417,866	9,417,866
Operating income	4,138,230	4,138,230	2,384,432	3,648,476	5,244,112	5,244,112	18,153,977	18,153,977
Other income (expense) - gain on bargain purchase	-	-	9,909,320	8,645,276	-	-	-	-
Other income (expenses) - change in fair value of warrants	-	464,686	-	(4,976,178)	-	269,943	3,574,710	4,908,389
Income tax - current	602,482	602,482	681,211	681,211	726,337	726,337	754,309	754,309
Income tax - deferred	-	-	3,468,262	3,025,847	-	-	-	-
Net income	3,600,297	4,064,983	7,990,104	3,456,341	4,816,077	5,086,020	4,953,159	9,194,708
Income per share - basic	\$0.08	\$0.09	\$0.16	\$0.07	\$0.09	\$0.10	\$0.08	\$0.15
Income per share - diluted	\$0.07	\$0.07	\$0.14	\$0.06	\$0.08	\$0.08	\$0.06	\$0.14
Outstanding shares-basic	47,055,374	47,055,374	48,901,584	48,901,584	52,970,305	52,970,305	59,390,317	59,390,317

Outstanding Shares-diluted	54,692,874	54,692,874	58,056,619	58,056,619	61,342,040	61,342,040	67,368,345	67,368,345
-------------------------------	------------	------------	------------	------------	------------	------------	------------	------------

F-76

---



ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 24. RESTATEMENT - 2009 and 2008 (Continued)

The impact of the restatement on the financial statements for the two cumulative interim periods of 2009 as previously reported is summarized below:

	Six months ended June 30, 2009		Nine months ended September 30, 2009	
	As Reported	As Restated	As Reported	As Restated
Revenues	\$ 24,457,320	\$ 24,457,320	\$ 42,171,598	\$ 42,171,598
Gross profits	11,347,531	11,347,531	18,974,580	18,974,580
Operating Income	6,522,661	7,786,705	11,766,773	13,030,817
Other income (expenses) - Gain on bargain purchase	9,909,320	8,645,276	9,909,320	8,645,276
Other income (expenses) - Change in fair value of warrants	--	(4,511,492 )	--	(4,241,549 )
Income tax - current	1,283,693	1,283,693	2,010,030	2,010,030
Income tax - deferred	3,468,262	3,025,847	3,468,262	3,025,847
Net income	11,590,401	7,521,323	16,406,478	12,607,343
Income per share - basic	\$ 0.24	\$ 0.16	\$ 0.33	\$ 0.25
Income per share - diluted	\$ 0.21	\$ 0.13	\$ 0.28	\$ 0.22
Outstanding shares-basic	47,983,579	47,983,579	49,676,366	49,676,366
Outstanding shares-diluted	56,553,099	56,553,099	57,974,862	57,974,862

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 24. RESTATEMENT - 2009 and 2008 (Continued)

## Quarterly Financial Statements - 2008

The tables below summarize the quarterly financial information for 2008.

2008	March 31	June 30	September 30		December 31	
			As Reported	As Restated	As Reported	As Restated
Total Assets	\$46,428,451	\$52,085,582	\$77,605,606	\$77,605,606	\$77,752,231	\$77,752,231
Warrant liability	-	-	-	3,996,564	--	3,429,992
Additional paid-in capital	18,251,266	18,485,257	31,083,904	31,563,100	39,289,991	31,769,186
Retained earnings	19,145,408	23,820,679	28,192,639	31,716,880	31,393,050	35,483,864
Revenues	10,031,969	11,748,284	12,662,585	12,662,585	10,729,273	10,729,273
Gross profits	5,042,227	5,972,230	5,886,148	5,886,148	5,148,896	5,148,896
Other income (expenses) - Change in fair value of warrants	-	-	-	3,524,241	--	566,572
Income tax	629,445	725,511	770,777	770,777	596,674	596,674
Net income	3,848,478	4,675,272	4,371,960	7,896,201	3,200,410	3,766,983
Income per share - Basic	\$0.08	\$0.09	\$0.10	\$0.18	\$0.07	\$0.09
Income per share - Diluted	\$0.08	\$0.09	\$0.08	\$0.15	\$0.06	\$0.07

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010, 2009 AND 2008

## 24. RESTATEMENT - 2009 and 2008 (Continued)

The impact of the restatement on the financial statements for the nine months ended September 30, 2008 as previously reported is summarized below:

	Nine Months Ended September 30, 2008	
	As Reported	As Restated
Revenues	\$ 34,442,838	\$ 34,442,838
Gross profits	16,900,605	16,900,605
Other income (expenses)		
- Change in fair value of warrants	--	3,524,241
Income tax	2,125,733	2,125,733
Net income	12,895,709	16,419,950
Income per share - Basic	\$ 0.30	\$ 0.39
Income per share - Diluted	\$ 0.25	\$ 0.32
Outstanding shares - Basic	42,456,824	42,456,824
Outstanding shares - Diluted	50,635,324	50,635,324

## 25. SUBSEQUENT EVENT

## Acquisition of Shenzhen Zhongqiang New Energy Science &amp; Technology Co., Ltd

On January 6, 2011, the Company, through its subsidiary, Harbin ZQPT, acquired all of the assets of Shenzhen Zhongqiang New Energy Science & Technology Co., Ltd. ("Shenzhen Zhongqiang"). In exchange for the assets of Shenzhen Zhongqiang, Harbin ZQPT will pay to Shenzhen Zhongqiang 135,000,000 Renminbi (approximately \$20 million), of which 91,250,000 Renminbi are being used to satisfy the liabilities of Shenzhen Zhongqiang. The initial payment in addition to a deposit of previously paid, totaled \$11,721,468, or 77,500,000 Renminbi has already been completed, and is recorded as deposit for investment as of December 31, 2010. The remaining balance has been paid subsequent to year end.

## Acquisition of Land Use Right and Buildings

On January 5, 2010, Cashtech Investment Limited, which is a subsidiary of the Company and Dongguan Qianshun Hardware, Inc. entered into a Land Use Right and Buildings Purchase Contract (the "Contract"). The Contract provides that Cashtech will purchase from Dongguan Qianshun Hardware, Inc. the land and buildings at 3 Middle, Qingxi Town, Dongguan City, Guangdong Province, China. The buildings consist of four industrial facilities with a total of 36,468 square meters of floor space, an office building with 5246 square meters, three dormitories with a total of 14,710 square meters, and a power supply facility, and the associated land use right. The purchase price will be approximately \$26,619,000, or 176 million Renminbi. The Company is in the process of transferring the land use right and buildings.

F-79

---

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

The term “disclosure controls and procedures” (defined in SEC Rule 13a-15(e)) refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported, within time periods specified in the rules and forms of the Securities and Exchange Commission. “Disclosure controls and procedures” include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company’s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this annual report (the “Evaluation Date”). Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such controls and procedures were not effective. The weaknesses in the Company’s controls and procedures consisted of (a) a lack of expertise in identifying and addressing complex accounting issued under U.S. Generally Accepted Accounting Principles among the personnel in the Company’s accounting department, which has resulted in errors in accounting that necessitated a restatement of our financial statements for 2008 and 2009 and (b) inadequate review by management personnel of the Company’s reports prior to filing, which resulted in errors in prior filings that necessitated the filing of amendments to the 2009 Annual Report and the Quarterly Report for the quarter ended September 30, 2010.

(b) Changes in internal controls.

The term “internal control over financial reporting” (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated any changes in the Company’s internal control over financial reporting that occurred during the fourth quarter of the year covered by this annual report. During that period the Company engaged an independent consulting firm to assist in the preparation of the Company’s financial statements. The Company’s management believes that the addition of these experts in accounting and disclosure practice to the personnel previously responsible for our financial disclosure will produce a material improvement in the Company’s internal control over financial reporting.

(c) Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. We have assessed the effectiveness of those internal controls as of December 31, 2010, using the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Internal Control – Integrated Framework as a basis for our assessment.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

A material weakness in internal controls is a deficiency in internal control, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. In the course of making our assessment of the effectiveness of internal controls over financial reporting, we identified two material weaknesses in our internal control over financial reporting. The weaknesses in the Company's controls and procedures consisted of (a) a lack of expertise in identifying and addressing complex accounting issues under U.S. Generally Accepted Accounting Principles among the personnel in the Company's accounting department, which has resulted in errors in accounting that necessitated a restatement of our financial statements for 2008 and 2009 and (b) inadequate review by management personnel of the Company's reports prior to filing, which resulted in errors in prior filings that necessitated the filing of amendments to the 2009 Annual Report and the Quarterly Report for the quarter ended September 30, 2010. Accordingly, management's assessment is that the Company's internal controls over financial reporting were not effective as of December 31, 2010.

This annual report contains an attestation report of the Company's registered independent public accounting firm regarding internal control over financial reporting. The attestation report is included in the opinion of the registered independent public accounting firm set forth in Item 8 of this report.

ITEM 9B. OTHER INFORMATION

None.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The officers and directors of the Company are:

Name	Age	Position with the Company	Director Since
Zhiguo Fu	61	Chairman, Chief Executive Officer	2004
Guohua Wan	58	Director, Chief Financial Officer	2004
Guopeng Gao	38	Director	2005
Hongjun Si	35	Director	2005
Liqui Bai	41	Director	2005
John McFadden	67	Director	2007
Ning Li	57	Director	2007
Shaoqiu Xia	64	Director	2007
Shiyan Yang	48	Director	2007
Cosimo J. Patti	61	Director	2007
Chi Quan Xue	67	Director	2010
Dan Chang	36	Senior Vice President	--

Directors hold office until the annual meeting of the Company's stockholders and the election and qualification of their successors. Officers hold office, subject to removal at any time by the Board, until the meeting of directors immediately following the annual meeting of stockholders and until their successors are appointed and qualified.

**Zhiguo Fu.** Mr. Fu organized ZQ Power-Tech in 2002, and has served as its Chairman since then. In 1993 Mr. Fu founded Heilongjiang Guangsha Group, and he served as its Chairman until 2000. During that period Heilongjiang Guangsha Group had over 3,000 employees and was engaged in several hundred construction projects. Heilongjiang Guangsha Group was sold in 2000, at which time it had annual revenue in excess of \$25 million. Previously Mr. Fu had twenty years' experience in construction management.

**Wan Guohua.** Since 2003 Ms. Wan has been the General Manager of ZQ Power-Tech. From 2005 until 2007, Ms. Wan also served as Chief Financial Officer of Advanced Battery Technologies, Inc. In March 2009 she was re-appointed to that position. From 1999 until 2003 Ms. Wan was Vice President and Chief Financial Officer of Harbin Ridaxing Science and Technology Co., Ltd.

**Gao Guopeng.** Since 2002 Mr. Gao has served as Vice President and General Manager of ZQ Power-Tech. From 2000 until 2002, Mr. Gao was Technical Manager for Heilongjiang Shuangtai Electric Co. Ltd.

**Hongjun Si.** Since 2002 Mr. Si has served as Chief Technology Officer of ZQ Power-tech. Prior to joining ZQ Power-Tech, Mr. Si was employed as an engineer in the Battery Division of Weiyou Chemical Company, Inc.





Liqui Bai. Since 2003 Ms. Bai has been the Vice General Manager for ZQ Power-Tech. During the three years that preceded her employment by ZQ Power-Tech, Ms. Bai was employed as Manager of the Administrative Department of Heilongjiang Weiyou Chemicals Corp., Ltd.

John J. McFadden. Since 1998 Mr. McFadden has been self-employed as a consultant, providing consultation to his clients regarding both investment banking and energy matters. From 1996 until 1998 Mr. McFadden was employed as the Senior Managing Director of Cambridge Holding and Cambridge Partners, LLC, a private investment company. From 1968 until 1996 Mr. McFadden was employed by The First Boston Corporation with a variety of responsibilities in corporate finance and public finance, including service as Vice President and Treasurer. Mr. McFadden contributes to the Board his 40 years of experience in public and corporate finance as well as his insights into corporate management. Mr. McFadden currently also serves as a member of the Board of Directors of China Digital Animation Development, Inc. (OTCBB: CHDA). In 1967 Mr. McFadden was awarded a B.A. degree by St. Bonaventure University.

Ning Li. Since 1990 Doctor Li has been employed as a Professor by the Harbin Industrial University, where she engages in teaching and research. Dr. Li contributes to the Board her knowledge of electrical engineering and battery technology. In 1990 Dr. Li was awarded a Doctoral Degree in Science by the Harbin Industrial University.

Shaoqiu Xia. Since 1993 Mr. Xia has been employed as Deputy Secretary in the Government of the City of Harbin, China. During the eight years immediately preceding his entry into government service, Mr. Xia was employed as President of Harbin Electrical and Mechanical Production Company. Mr. Xia contributes to the Board his familiarity with business practices in China, in particular government regulation of business practices in China, as well as his familiarity with electronic manufacturing processes. Mr. Xia currently also serves as a member of the Board of Directors of China Digital Animation Development, Inc. (OTCBB: CHDA). Mr. Xia was awarded a Bachelors Degree in Science in 1967 by the Shenyang Industrial University.

Shiyan Yang. Since 1998 Doctor Yang has been employed as a Professor by the Harbin Industrial University, where he engages in teaching and research. Dr. Yang contributes to the Board his knowledge of electrical engineering and battery technology. In 1998 he was awarded a Doctoral Degree in Science by the Harbin Industrial University.

Cosimo J. Patti. Mr. Patti has over 35 years of managerial experience in the financial services industry. Since 1999 Mr. Patti has been employed as President of Technology Integration Group, Inc. d/b/a FSI Advisors Group. FSI Advisors Group is an international consortium of financial services boutiques. Mr. Patti has been responsible for procuring business opportunities for the member firms. During the period from 2002 to 2004 Mr. Patti was also employed by iCi/ADP as Senior Director Applications Planning, with responsibility for managing the applications planning area of the fixed income software subsidiary of ADP. Mr. Patti serves as an Industry Arbitrator for both the NASD and the New York Stock Exchange. Mr. Patti contributes to the Board his many years of experience managing corporate teams in domestic and international operations, compliance and sales organizations. Mr. Patti currently also serves as a member of the Boards of Directors of American Oriental BioEngineering, Inc. (NYSE: AOB) and China XD Plastics Company Ltd. (NASDAQ: CXDC).

Chi Quan Xue. Mr. Chi was appointed to the Board of Advanced Battery Technologies to contribute his expertise in finance acquired through over 40 years of experience in the Chinese banking industry. Since 2004 Mr. Chi has been a private consultant to Chinese companies seeking access to overseas capital markets. From 1998 to 2004 Mr. Chi was employed as President of the Heilongjiang Province branch of the Country Development Bank. From 1990 to 1998 Mr. Chi was employed as President of the Heilongjiang Province branch of the China Investment Bank. Previously Mr. Chi served in executive positions with the China Construction Bank. Mr. Chi graduated in 1964 from the Heilongjiang Province College of Finance.

Dan Chang. Mr. Chang joined Advanced Battery Technologies in 2009 as Senior Vice President. During the two years prior to joining Advanced Battery Technologies, Mr. Chang was employed as Senior Vice President of China Natural Gas, Inc., a natural gas distributor listed on the NASDAQ. Prior to joining China Natural Gas, Inc., Mr. Chang was engaged in pursuing a master's degree in accountancy. From 2000 to 2004 Mr. Chang was employed with the investment banking groups of two firms located in Taipei, rising to the position of Associate Manager at the second location, Taiwan Securities Group. Mr. Chang was awarded a masters degree in accountancy by Pace University (New York) in 2006. In 1998 Mr. Chang was awarded a masters in business administration by the National Cheng-Chi University in Taiwan.

Audit Committee; Compensation Committee; Nominating Committee

We have certain standing committees of the Board, each of which is described below.

The Audit Committee consists of John J. McFadden, Cosimo J. Patti and Chi Quan Xue. Mr. McFadden serves as the chairman of the Audit Committee. The Board has determined that each of the members of the Audit Committee satisfies the independence requirements of the NASDAQ Stock Market. The Audit Committee oversees our accounting and financial reporting processes and procedures, reviews the scope and procedures of the internal audit function, appoints our independent registered public accounting firm and is responsible for the oversight of its work and the review of the results of its independent audits. The Audit Committee met once during 2010.

The Board of Directors has determined that John J. McFadden, who serves as Chairman of the Audit Committee, is an audit committee financial expert by reason of his experience in corporate finance and investment banking. Mr. McFadden is an independent director, within the definition of that term applicable to issuers listed on the NASDAQ Stock Market.

The Compensation Committee consists of Cosimo J. Patti, John J. McFadden and Shaoqiu Xia. Mr. Patti serves as chairman of the Compensation Committee. The Board has determined that each of the members of the Compensation Committee satisfies the independence requirements of the NASDAQ Stock Market. The Compensation Committee oversees the Company's policies regarding compensation and benefits, evaluates the performance of the Company's executive officers, reviews and approves the compensation of the Company's executive officers, and sets the compensation for members of the Board of Directors. The Compensation Committee met two times during 2010.

The Nominating and Corporate Governance Committee consists of Chi Quan Xue, Shiyang Yang and Ning Li. Mr. Chi serves as chairman of the Nominating and Corporate Governance Committee. The Board has determined that each of the members of the Nominating and Corporate Governance Committee satisfies the independence requirements of the NASDAQ Stock Market. The Nominating and Corporate Governance Committee makes recommendations to the Board regarding nominees to be submitted to our shareholders for election at each annual meeting of shareholders, selects candidates for consideration by the full Board to fill any vacancies on the Board, and oversees all of our corporate governance matters. The Nominating and Corporate Governance Committee met two times during 2010.



#### Procedure for Nominating or Recommending for Nomination Candidates for Director

There have been no changes to the procedures by which the shareholders of the Company may recommend nominees to the Board of Directors since the filing of the Company's Definitive Proxy Statement on September 13, 2010 for its Annual Meeting of Shareholders.

#### Code of Ethics

The Board of Directors has adopted the "Advanced Battery Technologies, Inc. Employee Code of Business Conduct and Ethics." The Code is applicable to all employees of Advanced Battery Technologies, including its principal executive officer, principal financial officer and principal accounting officer. The Code has been filed as an exhibit to this Company's Annual Report on Form 10-KSB for the year ended December 31, 2007. A copy of the Code may be obtained by requesting same in writing addressed to our Chairman, Zhiguo Fu, at the Company's executive offices in New York City.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Except as noted below, to the Company's knowledge, based solely on review of the copies of such reports furnished to the Company, during fiscal 2010, all Section 16(a) filing requirements applicable to the Directors, executive officers and greater than 10% shareholders were satisfied, except that none of the members of the Board of Directors other than Zhiguo Fu and John McFadden have filed initial reports on Form 3.

### ITEM 11. EXECUTIVE COMPENSATION

#### COMPENSATION DISCUSSION AND ANALYSIS

##### Oversight of Our Executive Compensation Program

The Compensation Committee oversees the compensation of our "Named Executive Officers" (currently, Zhiguo Fu, Guohua Wan and Dan Chang), and is composed entirely of independent Directors as defined under the listing standards of NASDAQ. The Compensation Committee is responsible for reviewing, approving and evaluating the Chief Executive Officer's performance in light of the goals and objectives of the Company. It also makes compensation recommendations with respect to our other executive officers, including approval of awards for incentive compensation and equity-based plans. The Compensation Committee administers all of our stock-based and other incentive compensation plans. The committee also assists the Board of Directors in developing succession planning for our executive officers.

### Objectives of Our Compensation Program

Our compensation program is designed to attract, motivate and retain key leaders and to align the long-term interests of the named executive officers with those of our shareholders. For most of our history, the compensation paid to the named executive officers has been based on prevailing compensation norms in the PRC. During 2010, the Compensation Committee reviewed the Company's executive compensation practices with a view to enabling the Company to better attract qualified executives in the United States. Effective on January 1, 2011, the Compensation Committee increased the salaries of our Named Executive Officers to a level more appropriate for executives of a U.S. public company, albeit one with its operations in the PRC:

Executive Office		2010 Salary	2011 Salary
Zhiguo Fu	C.E.O.	\$250,000	\$350,000
Guohua Wan	C.F.O.	\$100,000	\$150,000
Dan Chang	Senior V.P.	\$ 80,000	\$120,000

The Compensation Committee is currently reviewing the stock-based compensation practices of the Company, and expects to adopt a comprehensive stock-based compensation program during 2011 for the purpose of enhancing the Company's ability to attract and retain senior executives.

### The Role of the Chief Executive Officer in Determining Executive Compensation

The Compensation Committee, working with the Chief Executive Officer, evaluates and approves all compensation regarding our named executive officers. Our named executive officers report directly to our Chief Executive Officer who supervises the day to day performance of those officers. Accordingly, the Chief Executive Officer makes recommendations to the Compensation Committee regarding salaries, bonuses and equity awards for the other named executive officers and is required to annually review our executive compensation program for the named executive officers (other than himself). The Compensation Committee strongly considers the compensation recommendations and the performance evaluations of the Chief Executive Officer in making its decisions and any recommendations to the Board of Directors with respect to non-CEO compensation, incentive compensation plans and equity-based plans that are required to be submitted to the Board. In deliberations or approvals regarding the compensation of the other named executive officers, the committee may elect to invite the Chief Executive Officer to be present but not vote. In any deliberations or approvals of the committee regarding the Chief Executive Officer's compensation, the Chief Executive Officer is not invited to be present.

### Compensation Consultant

The Compensation Committee has the authority to hire compensation, accounting, legal or other advisors. In connection with any such hiring, the committee can determine the scope of the consultant's assignments and their fees. While the Compensation Committee has not, to date, retained an outside compensation consultant, the committee may retain a consultant in the future to provide the committee with data regarding compensation trends, to assist the committee in the preparation of market surveys or tally sheets or to otherwise help it evaluate compensation decisions.

### Our Compensation Program for Our Chief Executive Officer

The Company has paid to our Chief Executive Officer cash compensation of \$250,000 during 2010, \$225,000 during 2009 and \$77,500 in each of the prior two years. Effective on January 1, 2009, the Compensation Committee awarded Mr. Fu a nonqualified option to purchase 300,000 shares of common stock at the market price on that date. The Company has not delivered any other compensation or benefits to Mr. Fu during the past three years.

#### Potential Post-Termination Benefits for our Chief Executive Officer

The Company has not adopted any provisions regarding the payment of post-termination benefits or severance pay to Zhiguo Fu.

#### The Company's Compensation Program for Named Executive Officers Other Than Our Chief Executive Officer

The compensation paid to our Named Executive Officers other than our Chief Executive Officer - i.e. currently, Guohua Wan and Dan Chang - is reviewed and determined by the Compensation Committee on an annual basis. The Compensation Committee may also review an executive officer's compensation if that executive officer is promoted or experiences a change in responsibilities.

Each of the Named Executive Officers reports directly to our Chief Executive Officer who supervises their day to day performance. Our Chief Executive Officer annually reviews our executive compensation program (other than for himself) and makes compensation recommendations to the Compensation Committee. The Compensation Committee strongly considers the recommendations of the Chief Executive Officer in making its decisions and any recommendations to the Board of Directors with respect to non-CEO compensation, incentive compensation plans and equity-based plans that are required to be submitted to the Board.

#### Equity Compensation

The Company's 2006 Equity Incentive Plan (the "2006 Plan") and 2009 Equity Incentive Plan (the "2009 Plan") are administered by the Compensation Committee as a long-term component of the Company's compensation package. The number of equity awards granted to each eligible named executive officer is made on a discretionary rather than formula basis by the Compensation Committee with the recommendation of the Chief Executive Officer. The maximum number of shares that remain available to be issued by the Compensation Committee under the 2006 Plan is 891,000 shares. 5,000,000 shares are available for grant under the 2009 Plan. In addition, shares available for grant as a result of cancellation or termination of previously granted awards will also be available for grant.

#### Tax Implications of Executive Compensation

Section 162(m) of the Code places a limit of \$1,000,000 on the amount of compensation that a company may deduct in any one year with respect to its principal executive officer and each of its other three most highly paid executive officers. There is an exception to the \$1,000,000 limitation for performance-based compensation that meets certain requirements. Annual cash incentive compensation and stock option awards are generally forms of performance-based compensation that meet those requirements and, as such, are fully deductible.

Grants of stock options to our named executive officers under our 2006 Plan have not exceeded the \$1,000,000 threshold. Therefore, we expect to deduct compensation of our named executive officers related to compensation under the 2006 Plan.

The Compensation Committee has considered and will continue to consider tax deductibility in structuring compensation arrangements. However, the Compensation Committee retains discretion to establish executive compensation arrangements that it believes are consistent with the principles described earlier and in the best interests of our Company and its shareholders, even if those arrangements may not be fully deductible under Section 162(m).

## COMPENSATION COMMITTEE

The Board of Directors has a chartered Compensation Committee. The Compensation Committee currently consists of Cosimo J. Patti, John J. McFadden and Shaoqiu Xia. The Charter of the Compensation Committee mandates that the Committee will review and approve the compensation paid by the Company to its executive officers and members of the Board of Directors. The Charter does not authorize the Committee to delegate any of its responsibilities, and the Committee has not engaged any compensation consultant in connection with its review procedures.

## Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee has at any time served as an officer or employee of Advanced Battery Technologies or of any of its subsidiaries. No member has had any relationship with Advanced Battery Technologies or its subsidiaries other than as a member of the Board of Directors.

## Compensation Committee Report

The Compensation Committee of the Board of Directors of the Company has reviewed and discussed with management the Compensation Discussion and Analysis for 2010 to be included in this Annual Report on Form 10-K. Based on its review and discussion referred to above, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Annual Report.

Members of the Compensation Committee:  
Cosimo Patti, Chairman  
John McFadden  
Shaoqui Xia

## COMPENSATION ARRANGEMENTS

## Compensation Table

The following table sets forth all compensation awarded to, earned by, or paid by Advanced Battery Technologies and its subsidiaries to its Named Executive Officers for services rendered in all capacities to the Company during the years ended December 31, 2010, 2009 and 2008, except that Mr. Chang did not become a Named Executive Officer until 2010. There were no other executive officers whose total salary and bonus for the fiscal year ended December 31, 2010 exceeded \$100,000.

	Year	Salary	Bonus	Stock Awards	Option Awards	Other Compensation	Total
Zhiguo Fu	2010	\$250,000	--	--	--	--	\$250,000
	2009	\$225,000	--	\$686,171(1)	--	--	\$911,171
	2008	\$ 77,500	--	--	--	--	\$ 77,500
Guohua Wan	2010	\$100,000	--	--	--	--	\$100,000
	2009	\$ 50,000	--	91,490(1)	--	--	\$141,490
	2008	\$ 8,636	--	--	--	--	\$ 8,636
Dan Chang	2010	\$ 80,000	--	\$ 75,400	--	--	\$155,400

(1)



Represents the fair value of options for 300,000 shares (Zhiguo Fu) and 40,000 shares (Guohua Wan) granted as of January 1, 2009.

## Employment Agreements

Zhiguo Fu and Guohua Wan are employed on an at-will basis. Dan Chang has an employment agreement with the Company that expires on March 30, 2011. Mr. Chang will continue to be employed past that date on an at will basis. Mr. Chang's agreement with the Company currently provides that Mr. Chang will serve as Senior Vice President - Finance, and will be paid a salary of \$80,000 per year (subsequently raised to \$120,000) and will receive 20,000 shares of common stock per year, which will vest on September 23 of the year of issue.

## Equity Grants

The following tables set forth certain information regarding the stock options acquired by the Named Executive Officers during the year ended December 31, 2010. No other equity grants were made to the named executive officers during 2010.

## Option Grants in the Last Fiscal Year

	Grant Date	Date of Action by the Compensation Committee	Estimated Future Payout Under Equity Incentive Plan Awards (Maximum)(#)	Exercise or Base Price of Option Awards	Closing Price on Grant Date	Grant Date Fair Value of Option Award
Zhiguo Fu	--	--	--	--	--	--
Guohua Wan	--	--	--	--	--	--
Dan Chang	--	--	--	--	--	--

The following tables set forth certain information regarding the stock grants received by the executive officers named in the table above during the year ended December 31, 2010 and held by them at December 31, 2010.

## Outstanding Equity Awards at Fiscal Year End

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards:		
			Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
Zhiguo Fu	300,000(1)	--	300,000(1)	2.66	12/15/13
Guohua Wan	40,000(1)	--	40,000(1)	2.66	12/15/18
Dan Chang	--	--	--	--	--

(1) The options held by Zhiguo Fu and Guohua Wan vested on January 1, 2010.



## Remuneration of Directors

The Board has agreed that it will pay John McFadden a fee of \$3,000 per month and Cosimo J. Patti a fee of \$2,500 per month. The Board has also agreed to issue to each of Mr. McFadden and Mr. Patti, upon commencement of his service and on each anniversary of his commencement date, common shares with a market value of \$30,000. During 2010 the Board issued 7,807 shares of common stock to Mr. McFadden and 7,801 shares of common stock to Mr. Patti.

The following table summarizes the total compensation earned by all non-employee Directors during 2010:

Name	Director Summary Compensation for 2009		
	Fee Earned or Paid in Cash(\$)	All Other Compensation (\$)	Total (\$)
John McFadden	30,000	30,000(1)	60,000
Ning Li	1,500	--	1,500
Shaoqui Xia	1,500	--	1,500
Shiyan Yang	1,500	--	1,500
Cosimo Patti	27,000	30,000(1)	57,000
Chi Quan Xue	1,500	--	1,500

(1) Represents the market value of shares of common stock issued, on the date of issuance.

In addition to the amounts shown above, non-employee Board members received reimbursement for travel and lodging expenses incurred while attending Board and committee meetings and Board-related activities, such as visits to Company locations.

There were no outstanding options or other equity awards at year-end 2010 for non-employee Directors.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of the date of this prospectus by the following:

- each shareholder known by us to own beneficially more than 5% of our common stock;
  - Our Named Executive Officers;
  - each of our directors; and
  - all directors and executive officers as a group.

There are 76,440,434 shares of our common stock outstanding on the date of this report. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed below have sole voting power and investment power with respect to their shares, subject to community property laws where applicable. Beneficial

ownership is determined in accordance with the rules of the Securities and Exchange Commission.

In computing the number of shares beneficially owned by a person and the percent ownership of that person, we include shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days. We do not, however, include these “issuable” shares in the outstanding shares when we compute the percent ownership of any other person.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percentage of Class
Zhiguo Fu	9,149,730(2)	11.9%
Guohua Wan	110,000(2)	0.1%
Guopeng Gao	70,000	0.1%
Hongjun Si	60,000	0.1%
Liqui Bai	30,000	0.1%
John McFadden	44,608	0.1%
Ning Li	--	--
Shaoqiu Xia	--	--
Shiyan Yang	--	--
Cosimo J. Patti	40,603	0.1%
Chi Quan Xue	--	--
Dan Chang	20,000	0.1%
All officers and directors (12 persons)	9,524,941(2)	12.4%
Blackrock, Inc. 40 East 52nd Street New York, NY 10022	3,989,984(3)	5.2%

(1) Except as otherwise indicated below, the address of the beneficial owner is c/o Advanced Battery Technologies, Inc., 15 West 39th Street, Suite 14A, New York, NY 10018.

(2) Includes shares subject to stock options that are exercisable within 60 days of the date of this report as follows:

Name of Beneficial Owner	Options (#)
Zhiguo Fu	300,000
Guohua Wan	40,000

(3)The amount shown and the following information is derived from the Schedule 13G filed by Blackrock, Inc. on February 3, 2011. Blackrock, Inc. has voting and dispositive control over all 3,989,984 shares by reason of ownership of subsidiaries, none of which own more than 5% of the outstanding common stock of Advanced Battery Technologies, Inc.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Related Party Transactions

In July 2009, the Company signed a lease agreement with the Chairman of the Company, Mr Zhiguo Fu, to lease a house owned by Mr. Fu in the United States for the purpose of accommodating the frequent travel lodging needs for the Company's employees in China traveling to U.S. The monthly rent is \$4,000 and the lease will expire in three years. Otherwise, there were no material related party transactions between the Company and any of its officers or directors during 2010

Director Independence

The following members of our Board of Directors are independent, as "independent" is defined in the rules of the NASDAQ National Market System: John McFadden, Ning Li, Shaoqiu Xia, Shiyang Yang, Cosimo J. Patti and Chi Quan Xue.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

On December 14, 2010 the Company engaged EFP Rotenberg LLP as its independent registered public accounting firm, to replace Friedman LLP, which had previously served in that position.

Audit Fees

EFP Rotenberg LLP billed \$86,000 to the Company for professional services rendered for the audit of fiscal 2010 financial statements. Friedman LLP billed \$265,000 to the Company for professional services rendered for the audit of fiscal 2009 financial statements and review of the financial statements included in the fiscal 2009 10-Q filings.

Audit-Related Fees

EFP Rotenberg LLP billed \$0 to the Company during 2010 for assurance and related services that are reasonably related to the performance of the 2010 audit or review of the quarterly financial statements. Friedman LLP billed \$0 to the Company during 2009 for assurance and related services that are reasonably related to the performance of the 2009 audit or review of the quarterly financial statements.

Tax Fees

EFP Rotenberg LLP billed \$0 to the Company during 2010 for professional services rendered for tax compliance, tax advice and tax planning. Friedman LLP billed \$0 to the Company during 2009 for professional services rendered for tax compliance, tax advice and tax planning.

All Other Fees

EFP Rotenberg billed \$0 to the Company in 2010 for services not described above. Friedman LLP billed \$0 to the Company in 2009 for services not described above.

It is the policy of the Company that all services other than audit, review or attest services must be pre-approved by the Board of Directors. No such services have been performed by EFP Rotenberg LLP or Friedman LLP.





#### Subcontracted Services

All work on EFP Rotenberg LLP's engagement to audit the Company's financial statements for 2010 was performed by full-time permanent employees of EFP Rotenberg LLP.

#### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

##### (a) Financial Statements

Report of Independent Registered Public Accounting Firm - EFP Rotenberg LLP

Report of Independent Registered Public Accounting Firm - Friedman LLP

Report of Independent Registered Public Accounting Firm - Bagell, Josephs, Levine & Company, L.L.C.

Consolidated Balance Sheet - December 31, 2010 and 2009

Consolidated Statements of Income and Other Comprehensive Income – Years ended December 31, 2010, 2009 and 2008

Consolidated Statements of Changes in Stockholders' Equity - Years ended December 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flows - Years ended December 31, 2010, 2009 and 2008

Notes to Consolidated Financial Statements

##### (b) Financial Statement Schedules.

All schedules are omitted, either because they are not applicable or because the required information is shown in the consolidated financial statements or notes thereto

##### (c) Exhibit List

- 3-a Amended and Restated Certificate of Incorporation – filed as an exhibit to the Current Report on Form 8-K dated July 12, 2004 and incorporated herein by reference.
- 3-a(1) Certificate of Amendment of Certificate of Incorporation dated June 25, 2009 - filed as an exhibit to the Company's Current Report on Form 8-K dated June 25, 2009 and filed on June 26, 2009, and incorporated herein by reference.
- 3-b Amended By-laws – filed as an exhibit to the Company's Current Report on Form 8-K dated August 2, 2007 and filed on August 9, 2007, and incorporated herein by reference.
- 4-a Form of Series A Common Stock Purchase Warrant issued on June 1, 2009 and June 17, 2009 - filed as an exhibit to the Company's Current Report on Form 8-K dated June 1, 2009 and filed on June 2, 2009, and incorporated herein by reference.



- 4-b Form of Series C Common Stock Purchase Warrant issued on June 1, 2009 and June 17, 2009 - filed as an exhibit to the Company's Current Report on Form 8-K dated June 1, 2009 and filed on June 2, 2009, and incorporated herein by reference.
- 4-c Form of Common Stock Purchase Warrant issued on October 5, 2009 - filed as an exhibit to the Company's Current Report on Form 8-K dated October 5, 2009 and filed on October 7, 2009, and incorporated herein by reference.
- 4-d Form of Common Stock Greenshoe Warrant issued on December 3, 2010 - filed as an exhibit to the Company's Current Report on Form 8-K dated December 3, 2010 and filed on December 3, 2010, and incorporated herein by reference.
- 10-a 2006 Equity Incentive Plan – filed as an exhibit to the Registration Statement on Form S-8 (333-133492) and incorporated herein by reference.
- 10-b 2009 Equity Incentive Plan - filed as Appendix A to the Definitive Proxy Statement filed on May 26, 2009 and incorporated herein by reference.
- 10-c Stock Purchase Agreement dated December 18, 2008 between Beyond E-Tech, Inc. and Advanced Battery Technologies, Inc.
- 10-d Land Use Right and Buildings Purchase Contract dated January 5, 2011 between Cashtech Investment Limited and Dongguan Qianshun Hardware, Inc. - filed as an exhibit to the Company's Current Report on Form 8-K dated January 5, 2011 and filed on January 7, 2011, and incorporated herein by reference.
- 14. Advanced Battery Technologies, Inc. Employee Code of Business Conduct and Ethics - filed as an exhibit to the Company's Current Report on Form 8-K dated August 2, 2007 and filed on August 9, 2007, and incorporated herein by reference.
- 21 Subsidiaries – Cashtech Investment Limited  
Harbin ZhongQiang Power-Tech Co., Ltd.
- 23.1 Consent of EFP Rotenberg LLP
- 23.2 Consent of Friedman LLP
- 31.1 Rule 13a-14(a) Certification - CEO
- 31.2 Rule 13a-14(a) Certification - CFO
- 32 Rule 13a-14(b) Certifications

SIGNATURES

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

Advanced Battery Technologies, Inc.

By: /s/ Zhiguo Fu  
Zhiguo Fu, Chief Executive Officer

In accordance with the Exchange Act, this Report has been signed below on March 16, 2010 by the following persons, on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Zhiguo Fu  
Zhiguo Fu, Director,  
Chief Executive Officer

/s/ Guohua Wan  
Guohua Wan,  
Chief Financial and Chief  
Accounting Officer, Director

/s/ Guopeng Gao  
Guopeng Gao, Director

/s/ Hongjun Si  
Hongjun Si, Director

/s/ Liqui Bai  
Liqui Bai, Director

/s/ John McFadden  
John McFadden, Director

/s/ Ning Li  
Ning Li, Director

/s/ Shaoqiu Xia  
Shaoqiu Xia, Director

/s/ Shiyang Yang  
Shiyang Yang, Director

/s/ Cosimo J. Patti  
Cosimo J. Patti, Director

/s/ Chi Yuan Xue  
Chi Yuan Xue, Director

