ADVANCED BATTERY TECHNOLOGIES, INC.
Form 10QSB
August 14, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2007

[ ] Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period to

Commission File No. 0-13337

ADVANCED BATTERY TECHNOLOGIES, INC.

(Name of Small Business Issuer in its Charter)

Delaware	22-2497491
(State of Other Jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)

21 West 39th Street, Suite 2A New York, NY 10018

(Address of Principal Executive Offices)

212-391-2752

(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

The number of shares outstanding of each of the issuer's class of equity as of the latest practicable date is stated below:

Title of each class of Common Stock	Outstanding as of August 10, 2007
Common Stock, $0.001 par value	49,627,710

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

PART I - FINANCIAL INFORMATION

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEET

		June 30, 2007 Unaudited
ASSETS		
Current assets:		
Cash and cash equivalents	$	871,082
Accounts receivable		8,212,025
Inventory		529,990
Other receivables		752,950
Advance to suppliers		2,780,819
Loan to related parties		69,011
Taxes receivable		1,641,012
Total Current Assets		14,856,889
Property, plant and equipment, net of accumulated depreciation of $1,568,284		12,963,050
Other assets:		
Intangible assets, net		1,526,263
Goodwill		127,180
Total other assets		1,653,444
Total Assets	$	29,473,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable		1,940,496
Customer deposits		98,129
Accrued expenses and other payables		259,648
Total Current Liabilities		2,298,273
Long-term liabilities:		
Note payable		418,817

Total Liabilities		2,717,090
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $0.001 par value, 60,000,000 shares authorized;		
49,627,710 shares issued and outstanding as of June 30, 2007		49,628
Additional paid-in-capital		17,518,843
Accumulated other comprehensive income		1,578,459
Retained earnings		7,609,362
Total Stockholders' Equity		26,756,293
Total Liabilities and Stockholders' Equity	$	29,473,383

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

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ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the six and three months ended June 30, 2007 and 2006

	Three-Month Ended		Six-Month Ended	
	June 30, 2007 (Unaudited)	June 30, 2006 (Unaudited) (Restated)	June 30, 2007 (Unaudited)	June 30, 2006 (Unaudited) (Restated)
Revenues	$ 7,697,363	$ 3,175,452	$ 13,049,083	$ 5,084,449
Cost of Goods Sold	4,023,604	2,133,663	6,821,830	3,340,483
Gross Profit	3,673,759	1,041,789	6,227,253	1,743,966
Operating Expenses				
Selling, general and administrative	393,589	399,628	1,664,847	772,384
Operating income	3,280,171	642,161	4,562,406	971,582
Other Income (Expenses)	4,778	(70,496)	5,636	(131,384)
Income Before Income Taxes	3,284,948	571,665	4,568,042	840,198
Provision for Income Taxes	-	-	-	-
Net Income	$ 3,284,948	$ 571,665	$ 4,568,042	$ 840,198
Basic and diluted income per common share	$ 0.07	$ 0.01	$ 0.09	$ 0.02

Weighted average number of common shares outstanding	49,627,710	44,664,450	49,627,710	44,015,591

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

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six months ended June 30,	
	2007	**2006**
	Unaudited	**Unaudited (Restated)**
Cash Flows From Operating Activities:		
Net income	$ 4,568,042	$ 840,198
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	304,770	363,543
Amortization of prepaid consulting expenses	178,668	177,218
Amortization of stock compensation	249,561	164,178
Changes in operating assets and liabilities:		
Accounts receivable	(3,265,054)	(862,427)
Inventory	(217,612)	69,310
Other receivable & prepayments	(1,721,771)	105,738
Prepaid taxes	(1,641,012)	-
Accounts payable, accrued expenses and other payables	1,267,573	(578,786)
Unearned revenue	49,277	(15,598)
Net cash provided by (used in) opearating activities	(227,558)	263,374
Cash Flows From Investing Activities:		
Purchase of property, plant and equipment	(922)	(8,801)
Collection on loan to related parties	815,918	-
Net cash provided by (used in) investing activities	814,996	(8,801)
Cash Flows From Financing Activities		
Repayments of notes payable	-	(292,365)
Proceeds from notes payable	34,404	-
Net cash provided by (used in) financing activities	34,404	(292,365)

Effect of exchange rate changes on cash and cash equivalents		236,610		21,598
Increase (decrease) in cash and cash equivalents		858,452		(16,194)
Cash and Cash Equivalents - Beginning of period		12,630		17,708
Cash and Cash Equivalents - End of period	$	871,082	$	1,514

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

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (cont d)

	For the Six months ended June 30, 2007 Unaudited		2006 Unaudited (Restated)	
SUPPLEMENTAL CASH FLOW INFORMATION:				
During the year, cash was paid for the following:				
Interest expense	$	-	$	131,384
Income taxes	$	-	$	-
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Common stock issued for acquisition of minority interest	$	-	$	5,890,297
Common stock issued for acquisition of the patent	$	-	$	4,400
Common stock issued for consulting services	$	-	$	34,800
Common stock issued for incentive stock options	$	-	$	5,207,000

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

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)

1. ORGANIZATION AND DESCRIPTION OF THE COMPANY

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 Heilongjiang Zhong Qiang Power-Tech Co., Ltd. (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.

The Company is engaged in develop, design, manufacture and sales of rechargeable polymer lithium-ion batteries through its wholly owned subsidiaries, Cashtech and ZQPT. The Company s main operations are located in the PRC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements, In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2007 and 2006 are not necessarily indicative of the results that may be expected for the full years. The information included in this Form 10-QSB should be read in conjunction with Management s Discussion and Analysis and the financial statements and notes to thereto included in the Company s 2006 Form 10-KSB.

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported total assets, liabilities, stockholders' equity or net income.

Principles of consolidation

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

Use of estimates

In preparing the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, the 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 the management include, but are not limited to, the recoverability of long-lived assets and the valuation of accounts receivable and inventories. Actual results could differ from those estimates.

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents and accounts and other receivables. As of June 30, 2007, substantially all of the Company's cash and cash equivalents were held by major banks located in the PRC of which the Company's management believes are of high credit quality. With respect to accounts receivable, the Company extends credit based on an evaluation of the customer's financial condition and without requiring collateral. The Company conducts periodic reviews of its customers' financial condition and customer payment practices to minimize collection risk on accounts receivable.

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

The functional currency of ZQPT 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 transactions are included in accumulated other comprehensive income.

Recently Issued Accounting Standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (FAS 157). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of FAS 157 is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, Quantifying Misstatements. SAB 108 provides interpretative guidance on how public companies quantify financial statement misstatements. There have been two common approaches used to quantify such errors. Under an income statement approach, the roll-over method, the error is quantified as the amount by which the current year income statement is misstated. Alternatively, under a balance sheet approach, the iron curtain method, the error is quantified as the cumulative amount by which the current year balance sheet is misstated. In SAB 108, the SEC established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company s financial statements and the related financial statement disclosures. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on the Company s consolidated financial position and results of operations.

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We are currently evaluating the potential impact of this statement.

3. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following at June 30, 2007:

Building and improvements	$	10,959,536
Machinery and equipment		3,201,849
Motor Vehicles		160,288
		14,531,334
less: Accumulated Depreciation		(1,568,284)
Total property, plant and equipment, net	$	12,963,050

Property, plant and equipment are generally stated at cost less accumulated depreciation. Upon acquisition of the 30% minority interest (Note 1), the buildings and building improvements have been adjusted to its fair market value due to re-evaluation of the Company s assets and liabilities for the purpose of determining the goodwill.

Depreciation expense for the six months ended June 30, 2007 and 2006 was $251,956 and $299,463, 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. The costs involved with construction in progress were $ - 0 - and $4,324,079 for the six months ended June 30, 2007 and 2006, respectively.

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

4. INTANGIBLE ASSETS

Intangible assets consist of land use rights and patents. 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 Group leases two pieces of land per real estate contract from the PRC Government for a period from August 2003 to September 2043, on which the office and production facilities of ZQ Power-Tech are situated. The Group leases power from the local government for a period from July 2003 to July 2013.

Rights to use land and power and patent right are stated at fair market value less accumulated amortization. The use of the fair market value was due to re-evaluation of the Company s assets and liabilities for the purpose of determining the goodwill upon acquisition of the 30% minority interest (Note 1).

The Company amortizes the patents over a 10 year period. The Company evaluates 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 June 30, 2007, no impairment of intangible assets has been recorded.

Net intangible assets at June 30, 2007 were as follows:

Rights to use land and power	$	904,778
Patents		793,811
		1,698,589
Less: accumulated amortization		(172,326)
	$	1,526,263

Amortization expense was $52,814 and $60,730 for the six months ended June 30, 2007 and 2006.

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

5. GOODWILL

Upon acquisition of the 30% minority interest (Note 1), the Company allocated amounts to the fixed assets, equipments and intangibles to reflect their fair value. Goodwill represents the excess of the purchase price over the fair value of those net tangible and identifiable intangible assets of the 30% minority interest acquired. Goodwill is tested for impairment on an annual basis and in between annual test dates if events or circumstances indicate that the fair value of the Company s net assets is below its book value.

At the end of the fiscal year 2006, the Company performed a goodwill valuation test and determined that they had in fact overpaid for the acquisition of the 30% minority interest at the beginning of the year. A goodwill impairment loss in the amount of $2,050,204 was recognized to reflect the proper value of the goodwill.

6. LOAN TO RELATED PARTIES

The Company has loans receivable in the amount of $69,011 from its affiliates, which are also owned by the CEO of the Company. All loans are unsecured and interest free. The management of the Company expects the entire amount of the outstanding loans will be repaid within one year.

7. 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 Plan is further intended to attract and retain the services of the Participants upon whose judgment, interest, and special efforts the successful operation of the Company is dependent. 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 stocks, the date, the termination of the stock options or awards, the stock option term, vesting schedules and all other terms and conditions thereof.

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

7. STOCK-BASED COMPENSATION (Continued)

A summary of the status of the Company s unearned stock compensation under the 2004 Equity Incentive Plan as of June 30, 2007, and changes for the six months ended June 30, 2007 is presented below :

Unearned stock compensation as of January 1, 2007	$	2,635,214
Unearned stock compensation granted		-
Compensation expenses debited to statement of operations with a credit to additional paid-in capital		(132,880)
Unearned stock compensation as of June 30, 2007	$	2,502,334

In addition, the compensation cost capitalized as an offset 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 $941,057. The amortization for the six months ended June 30, 2007 and 2006 was $178,668 and $177,218, respectively.

(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 at any time and 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.

7. 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.

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

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.

No award shall be made under the 2006 Plan after December 31, 2015.

A summary of the status of the Company s unearned stock compensation under the 2006 Equity Incentive Plan as of June 30, 2007 is presented below:

Unearned stock compensation as of January 1, 2007	$	4,052,777
Unearned stock compensation granted		-
Compensation expenses debited to statement of operations		
with a credit to additional paid-in capital		(116,682)
Unearned stock compensation as of June 30, 2007	$	3,936,095

Other than the transaction as detailed above, no options or awards have been made, exercised or lapsed during the six months ended June 30, 2007 and 2006 under the 2004 Plan and the 2006 Plan.

8. WARRANTIES

The Company warrants 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 experience for costs and expenses in connection with such warranties has been minimal and during the six months ended June 30, 2007 and 2006, no amounts have been considered necessary to reserve for warranty costs.

9. COMMITMENTS AND CONTINGENCIES

The Company s operations are carried out in the PRC. Accordingly, the Company s business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC s economy.

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.

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

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.

10. RESTATEMENT

We have restated the consolidated financial statements for the six months ended June 30, 2006 as a result of changes made in the method of accounting for the acquisition of the 30% minority interest by the Company in January 2006.

The acquisition of the minority interest was previously accounted for at book value, consistent with accounting for entities under common control. Upon further review of SFAS 141, we have determined that this transaction should have been accounted for using the purchase method instead.

11. SUBSEQUENT EVENT

On July 15, 2007, ABAT and ROI Group, LLC had entered into a public relations service agreement. The agreement calls for a monthly cash retainer plus 200,000 warrants expiring July 15, 2012 with a strike price of $6.00 per share. The contract term is for six months with renewal rights every six month up to five years..

Item 2.

Management's Discussion and Analysis

Forward-Looking Statements: No Assurances Intended

In addition to historical information, this Quarterly 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 below in the section entitled Risk Factors That May Affect Future Results. 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.

Results of Operations

Near the end of 2004, our operating subsidiary, ZQ Power-Tech, obtained the financing needed to complete additional factory facilities at ZQ Power-Tech s campus in Heilongjiang. Production was reduced to minimal or none, as management focused on doubling the Company s production capacity and training the necessary personnel. Between 2004 and the end of 2005, the number of employees at our facility increased from 300 to 1260, as we more than doubled our production capacity to its current level of $40 million per year. We now have two buildings (A and B) in full production, and continue to outfit buildings C and D.

During 2006 we began to realize the benefit of our capital investment, as our total revenue for the year quadrupled to $16,329,340. That growth continued in the first six months of 2007, as our revenue grew to $13,049,083, a 157% increase from the $5,084,449 in revenue realized in the first six months of 2006. Based on results to date and firm orders already in place, we expect that in 2007 we will substantially exceed the revenue level we realized in 2006.

ZQ Power-Tech realized a 48% gross margin on its sales in the six months ended June 30, 2007, as contrasted with a 34% gross margin on sales in the first six months of 2006. The increase in gross margin was primarily a result of our implementation of advanced production management systems. We also gained experience with our new production lines, which enabled us to improve the efficiency of the lines and to discover lower-cost sources of raw materials for our products. Our gross margin ratio in the future will depend considerably upon which of ZQ Power-Tech s products are dominating sales. However we do expect our operations in 2007 and beyond to approximate the efficiency level we have recently realized.

Our selling, general and administrative expense increased by 116% from the first six months of 2006 ($772,384 15% of revenue) to the first six months of 2007 ($1,664,847 13% of revenue). However, there was included in the expenses for the quarter ended March 31, 2007 a one-time compensation charge of $893,896, arising from a bonus granted to management. Without that one-time charge, the selling, general and administrative expenses during the six months ended June 30, 2007 were $770,951, representing 6% of revenues. This overall reduction in the ratio of our G&A expense to our revenues reflected, in part, our efforts to increase efficiencies in our operations.

Also included in our general and administrative expense in the first six months of 2007 was $428,229 attributable to amortization of the market value of stock that we granted to employees or consultants, primarily during 2004. This non-cash expense resulted from our use of stock during our early years to incentivize key individuals. At June 30, 2007 there remained $7,165,371 in unamortized stock compensation and prepaid consulting expenses on the Company s books. This sum will be amortized over the expected duration of the employment or service of the recipients of the shares.

Our revenue less expenses produced a net pre-tax income of $4,568,042 for the six months ended June 30, 2007. As a result of Chinese tax laws that reward foreign investment in China, ZQ Power-Tech is entitled to exemption for income taxes during 2006 and 2007, followed by a 50% abatement from 2008 to 2010. Accordingly, our net income for the first six months of 2007 was $4,568,042, or $.09 per share, compared to $840,198 in income realized in the first six months of 2006.

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 it is more reflective of changes in the relative values of U.S. and Chinese currencies than of the success of our business. In the first six months of 2007, the effect of converting our financial results to Dollars was to add $603,872 to our accumulated other comprehensive income.

Liquidity and Capital Resources

During 2006 we repaid most of the loans we incurred to fund the construction of our manufacturing facility. At June 30, 2007 our debt was now limited to a $418,817 note payable.

At June 30, 2007 ZQ Power-Tech had a working capital balance of $12,558,616, an improvement of $5,571,133 from the working capital balance at December 31, 2006. The primary reason for the improvement in working capital was the net income realized from operations in the six months ended June 30, 2007.

Our operations used $227,558 in cash during the first six months of 2007, as compared to $263,374 generated in the first six months of 2006. We realized negative cash from operations despite recording net income for the period primarily due to a $3.27MM increase in accounts receivable and a $1.72MM increase in other receivables. We also prepaid $1.64MM in taxes, in order to allocate the benefit of the current temporary tax holiday over a longer period.

ZQ Power-Tech has sufficient liquidity to fund its near-term operations and to fund expansion of its operations such as the current development of a dedicated assembly line for miner s lamps. Our principal capital resource available is $12,963,050 in property, plant and equipment, which ZQ Power-Tech owns free of liens. Based on the substantial backlog of orders that ZQ Power-Tech has accumulated, it believes that additional secured financing will be available to it on favorable terms when needed

Based upon the financial resources available to ZQ Power-Tech, management believes that it has sufficient capital and liquidity to sustain operations for the foreseeable future.

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.

Risk Factors That May Affect Future Results

You should carefully consider the risks described below before buying our common stock. If any of the risks described below actually occurs, that event could cause the trading price of our common stock to decline, and you could lose all or part of your investment.

I. Risks attendant to our business

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

We have only one product line, rechargeable polymer lithium-ion batteries. We first marketed our batteries in the Spring of 2004, and only began to report substantial revenue at the end of 2005. There are many companies, large and small, involved in the market for rechargeable batteries. 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 operate efficiently and our business will fail.

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.

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.

Capital outflow policies in China may hamper our ability to pay dividends to shareholders in the United States.

The People s Republic of China has adopted currency and capital transfer regulations. These regulations require that we comply with complex regulations for the movement of capital. Although Chinese governmental policies were introduced in 1996 to allow the convertibility of RMB into foreign currency for current account items, conversion of RMB into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange. We may be unable to obtain all of the required conversion approvals for our operations, and Chinese regulatory authorities may impose greater restrictions on the convertibility of the RMB in the future. Because most of our future revenues will be in RMB, any inability to obtain the requisite approvals or any future restrictions on currency exchanges will limit our ability to fund our business activities outside China or to pay dividends to our shareholders.

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 resources.

Trade barriers and taxes may have an adverse effect on our business and operations.

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.

Currency fluctuations may adversely affect our business.

We generate revenues and incur expenses and liabilities in Chinese RMB. However we report our financial results in the United States in U.S. Dollars. As a result, we are subject to the effects of exchange rate fluctuations between these currencies. Recently, there have been suggestions made to the Chinese government that it should adjust the exchange rate and end the linkage that in recent years has held the RMB-U.S. dollar exchange rate constant. If the RMB exchange rate is adjusted or is allowed to float freely against the U.S. dollar, our revenues, which are denominated in RMB, may fluctuate significantly in U.S. dollar terms. We have not entered into agreements or purchased instruments to hedge our exchange rate risks.

II. Risks attendant to our management

Our business development would be hindered if we lost the services of our Chairman.

Fu Zhiguo is the Chief Executive Officer of Advanced Battery Technologies and of its operating subsidiary, ZQ Power-Tech. Mr. Fu is responsible for strategizing not only our business plan but also the means of financing it. Mr. Fu has also, from time to time, provided his personal funds to meet the working capital needs of ZQ Power-Tech. 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.

Advanced Battery Technologies is not likely to hold annual shareholder meetings in the next few years.

Delaware corporation law provides that members of the board of directors retain authority to act until they are removed or replaced at a meeting of the shareholders. A shareholder may petition the Delaware Court of Chancery to direct that a shareholders meeting be held. But absent such a legal action, the board has no obligation to call a shareholders meeting. Unless a shareholders meeting is held, the existing directors elect directors to fill any vacancy that occurs on the board of directors. The shareholders, therefore, have no control over the constitution of the board of directors, unless a shareholders meeting is held.

Since it became a public company, Advanced Battery Technologies has never held an annual meeting of shareholders. Management does not expect to hold annual meetings of shareholders in the next few years, due to the expense involved. The current members of the Board of Directors were appointed to that position by the current and previous directors. If other directors are added to the Board in the future, it is likely that the current directors will appoint them.

As a result, the shareholders of Advanced Battery Technologies will have no effective means of exercising control over the operations of Advanced Battery Technologies.

Item 3.

Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The evaluation was undertaken in consultation with our accounting personnel. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are currently effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. As we develop new business or if we engage in an extraordinary transaction, we will review our disclosure controls and procedures and make sure that they remain adequate.

There were no changes in the internal controls over our financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6.

Exhibits

31.1

Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2

Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1

Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2

Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADVANCED BATTERY TECHNOLOGIES, INC.

Date: August 14, 2007

By: /s/ Zhiguo Fu

Name: Zhiguo Fu

Title: Chief Executive Officer

Date: August 14, 2007

By: /s/ Sharon Xiaorong Tang

Name: Sharon Xiaorong Tang

Title: Chief Financial Officer