

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended: September 30, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **001-32898**

**CBAK ENERGY TECHNOLOGY, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**88-0442833**

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

**BAK Industrial Park, Meigui Street**

**Huayuankou Economic Zone**

**Dalian City, Liaoning Province,**

**China, 116450**

(Address of principal executive offices, Zip Code)

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

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Smaller reporting company

Accelerated filer

Emerging growth company

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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of November 19, 2018 is as follows:

<u>Class of Securities</u>	<u>Shares Outstanding</u>
Common Stock, \$0.001 par value	26,647,478

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**CBAK ENERGY TECHNOLOGY, INC.**

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

**ITEM 1. FINANCIAL STATEMENTS.**

**CBAK ENERGY TECHNOLOGY, INC. AND SUBSIDIARIES**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2018**

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**CBAK Energy Technology, Inc. and Subsidiaries**  
**Condensed consolidated balance sheets**  
As of December 31, 2017 and September 30, 2018  
(Unaudited)  
(In US\$ except for number of shares)

	Note	<i>December 31,</i> 2017	<i>September 30,</i> 2018
<b>Assets</b>			
<i>Current assets</i>			
Cash and cash equivalents		\$ 1,644,535	\$ 750,445
Pledged deposits	2	9,104,178	18,896,380
Trade accounts and bills receivable, net	3	57,518,612	28,605,444
Inventories	4	9,832,405	9,124,583
Prepayments and other receivables	5	6,971,810	6,420,789
Prepaid land use rights, current portion	9	172,700	163,602
Total current assets		85,244,240	63,961,243
Property, plant and equipment, net	7	34,965,510	39,084,497
Construction in progress	8	25,029,290	21,756,422
Prepaid land use rights, non-current	9	7,872,235	7,334,819
Intangible assets, net	10	20,049	21,999
Total assets		\$ 153,131,324	\$ 132,158,980
<b>Liabilities</b>			
<i>Current liabilities</i>			
Current maturities of long-term bank loans	12	\$ -	\$ 4,368,211
Other short-term loans	12	14,636,450	16,269,642
Trade accounts and bills payable	11	65,616,543	61,184,722
Accrued expenses and other payables	13	14,208,947	12,738,118
Payables to former subsidiaries, net	6	22,302,721	1,255,044
Deferred government grants, current	14	152,003	143,995
Total current liabilities		116,916,664	95,959,732
Long-term bank loans, net of current maturities	12	19,489,702	18,681,383
Deferred government grants, non-current	14	4,712,128	4,355,894
Product warranty provision	15	2,279,831	2,045,137
Long term tax payable		7,537,273	7,140,205
Total liabilities		150,935,598	128,182,351
Commitments and contingencies	20		
<b>Shareholders' equity</b>			
Common stock \$0.001 par value; 500,000,000 authorized ; 26,367,523 issued and 26,223,317 outstanding as of December 31, 2017, 26,791,684 issued and 26,647,478 outstanding as of September 30, 2018		26,368	26,792
Donated shares		14,101,689	14,101,689
Additional paid-in capital		155,711,014	155,899,592
Statutory reserves		1,230,511	1,230,511
Accumulated deficit		(163,466,713)	(161,548,214)
Accumulated other comprehensive loss		(1,340,533)	(1,681,978)
		6,262,336	8,028,392
Less: Treasury shares		(4,066,610)	(4,066,610)
Total shareholders' equity		2,195,726	3,961,782
Non-controlling interests		-	14,847
Total equity		2,195,726	3,976,629
Total liabilities and Shareholders' equity		\$ 153,131,324	\$ 132,158,980

See accompanying notes to the condensed consolidated financial statements.

**CBAK Energy Technology, Inc. and Subsidiaries**  
**Condensed consolidated statements of operations and comprehensive income (loss)**  
**For the three and nine months ended September 30, 2017 and 2018**  
(Unaudited)

(In US\$ except for number of shares)

	Note	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
		<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>
Net revenues	22	\$ 17,750,710	\$ 5,589,371	\$ 27,806,113	\$ 14,952,470
Cost of revenues		(19,111,425)	(7,426,846)	(31,075,142)	(18,186,164)
Gross loss		(1,360,715)	(1,837,475)	(3,269,029)	(3,233,694)
Operating expenses:					
Research and development expenses		(372,041)	(604,353)	(1,335,556)	(1,968,886)
Sales and marketing expenses		(1,135,992)	(370,979)	(1,820,629)	(984,507)
General and administrative expenses		(1,328,653)	(1,302,608)	(3,471,384)	(3,631,568)
Total operating expenses		(2,836,686)	(2,277,940)	(6,627,569)	(6,584,961)
Operating loss		(4,197,401)	(4,115,415)	(9,896,598)	(9,818,655)
Finance income (expenses), net		8,943	(299,591)	(86,820)	(605,756)
Other (expenses) income, net	6	(14,295)	12,335,569	(40,931)	12,331,453
(Loss) Income before income tax		(4,202,753)	7,920,563	(10,024,349)	1,907,042
Income tax expense	16	-	-	-	-
Net (loss) income		(4,202,753)	7,920,563	(10,024,349)	1,907,042
Less: Net loss attributable to non-controlling interests		-	7,964	-	11,457
Net (loss) income attributable to shareholders of CBAK Energy Technology, Inc.		\$ (4,202,753)	\$ 7,928,527	\$ (10,024,349)	\$ 1,918,499
Net (loss) income		(4,202,753)	7,920,563	(10,024,349)	1,907,042
Other comprehensive income (loss)					
– Foreign currency translation adjustment		291,029	(481,782)	629,073	(342,005)
Comprehensive (loss) income		(3,911,724)	7,438,781	(9,395,276)	1,565,037
Less: Comprehensive loss attributable to non-controlling interests		-	8,391	-	12,017
Comprehensive (loss) income attributable to CBAK Energy Technology, Inc.		\$ (3,911,724)	\$ 7,447,172	\$ (9,395,276)	\$ 1,577,054
(Loss) Income per share	18				
– Basic		\$ (0.16)	\$ 0.30	\$ (0.45)	\$ 0.07
– Diluted		\$ (0.16)	\$ 0.30	\$ (0.45)	\$ 0.07
Weighted average number of shares of common stock:	18				
– Basic		26,334,918	26,660,814	22,174,315	26,642,749
– Diluted		26,334,918	26,708,446	22,174,315	26,723,880

See accompanying notes to the condensed consolidated financial statements.

**CBAK Energy Technology, Inc. and Subsidiaries**  
**Condensed consolidated statements of changes in shareholders' equity (deficit)**  
**For the nine months ended September 30, 2017 and 2018**  
(Unaudited)  
(In US\$ except for number of shares)

	Common stock issued		Donated shares	Additional paid-in capital	Statutory reserves	Accumulated deficit	Accumulated other comprehensive loss	Non-controlling interests	Treasury shares		Total shareholders' equity
	Number of shares	Amount							Number of shares	Amount	
<b>Balance as of January 1, 2017</b>	<b>19,744,675</b>	<b>\$ 19,745</b>	<b>\$14,101,689</b>	<b>\$145,353,067</b>	<b>\$1,230,511</b>	<b>\$(141,999,372)</b>	<b>\$(1,961,461)</b>	<b>-</b>	<b>(144,206)</b>	<b>\$(4,066,610)</b>	<b>12,677,569</b>
Net loss	-	-	-	-	-	(10,024,349)	-	-	-	-	(10,024,349)
Common stock issued to investors	6,403,518	6,404	-	9,598,874	-	-	-	-	-	-	9,605,278
Share-based compensation for employee and director stock awards	-	-	-	635,530	-	-	-	-	-	-	635,530
Common stock issued to employees and directors for stock awards	219,330	219	-	(219)	-	-	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	629,073	-	-	-	629,073
<b>Balance as of September 30, 2017</b>	<b>26,367,523</b>	<b>\$ 26,368</b>	<b>\$14,101,689</b>	<b>\$155,587,252</b>	<b>\$1,230,511</b>	<b>\$(152,023,721)</b>	<b>\$(1,332,388)</b>	<b>-</b>	<b>(144,206)</b>	<b>\$(4,066,610)</b>	<b>13,523,101</b>
<b>Balance as of January 1, 2018</b>	<b>26,367,523</b>	<b>\$ 26,368</b>	<b>\$14,101,689</b>	<b>\$155,711,014</b>	<b>\$1,230,511</b>	<b>\$(163,466,713)</b>	<b>\$(1,340,533)</b>	<b>-</b>	<b>(144,206)</b>	<b>\$(4,066,610)</b>	<b>2,195,726</b>
Capital contribution from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	26,864	-	-	26,864
Net income (loss)	-	-	-	-	-	1,918,499	-	(11,457)	-	-	1,907,042
Share-based compensation for employee and director stock awards	-	-	-	189,002	-	-	-	-	-	-	189,002
Common stock issued to employees and directors for stock awards	424,161	424	-	(424)	-	-	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	(341,445)	(560)	-	-	(342,005)
<b>Balance as of September 30, 2018</b>	<b>26,791,684</b>	<b>\$ 26,792</b>	<b>\$14,101,689</b>	<b>\$155,899,592</b>	<b>\$1,230,511</b>	<b>\$(161,548,214)</b>	<b>\$(1,681,978)</b>	<b>14,847</b>	<b>(144,206)</b>	<b>\$(4,066,610)</b>	<b>3,976,629</b>

See accompanying notes to the condensed consolidated financial statements.





**CBAK Energy Technology, Inc. and subsidiaries**  
**Condensed Consolidated statements of cash flows**  
**For the nine months ended September 30, 2017 and 2018**  
(Unaudited)  
(In US\$ except for number of shares)

	Nine months ended September 30,	
	2017	2018
<b>Cash flows from operating activities</b>		
Net (loss) profit	\$ (10,024,349)	\$ 1,907,042
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,006,122	1,767,584
Provision for doubtful debts	361,217	176,961
Write-down of inventories	1,359,182	730,446
Share-based compensation	635,530	189,002
Gain on disposal of property, plant and equipment	-	(1,137)
Gain on disposal of patented proprietary technology (Note 6)	-	(12,296,776)
Exchange gain	(93,488)	-
Changes in operating assets and liabilities:		
Trade accounts and bills receivable	(27,736,858)	27,035,867
Inventories	(1,757,900)	(530,345)
Prepayments and other receivables	(583,517)	394,178
Trade accounts and bills payable	18,315,114	(1,226,192)
Accrued expenses and other payables	1,438,167	(368,702)
Income taxes payable	(615,031)	-
Trade receivable from and payables to former subsidiaries	11,163,618	(8,637,203)
Net cash (used in) provided by operating activities	<u>(6,532,193)</u>	<u>9,140,725</u>
<b>Cash flows from investing activities</b>		
Proceeds on disposal of property, plant and equipment	-	13,319
Purchases of property, plant and equipment and construction in progress	(8,738,549)	(6,574,347)
Net cash used in investing activities	<u>(8,738,549)</u>	<u>(6,561,028)</u>
<b>Cash flows from financing activities</b>		
Advances from investors	2,056,706	-
Advances from former subsidiary	2,056,706	-
Capital injection from non-controlling interests	-	26,864
Proceeds from bank borrowings	-	24,233,796
Repayment of bank borrowings	(1,469,076)	(19,411,531)
Borrowings from unrelated parties	5,530,190	76,544
Repayment of borrowings from unrelated parties	(5,874,816)	(44,091)
Borrowings from related parties	2,083,150	10,696,243
Repayment of borrowings from related parties	(1,522,697)	(8,206,464)
Proceeds from issuance of common stock	9,605,277	-
Net cash provided by financing activities	<u>12,465,440</u>	<u>7,371,361</u>
<b>Effect of exchange rate changes on cash and cash equivalents and restricted cash</b>	<b>204,086</b>	<b>(1,052,946)</b>
<b>Net (decrease) increase in cash and cash equivalents and restricted cash</b>	<b>(2,601,216)</b>	<b>8,898,112</b>
<b>Cash and cash equivalents and restricted cash at the beginning of period</b>	<b>4,686,857</b>	<b>10,748,713</b>
<b>Cash and cash equivalents and restricted cash at the end of period</b>	<b>\$ 2,085,641</b>	<b>\$ 19,646,825</b>
Supplemental non-cash investing and financing activities:		
Transfer of construction in progress to property, plant and equipment	\$ 14,990,191	\$ 7,236,709
Proceeds on disposal of patented proprietary technology offset against amount due to a former subsidiary (Note 6)	\$ -	\$ 13,034,583
Cash paid during the period for:		
Income taxes	\$ 615,031	\$ -
Interest, net of amounts capitalized	\$ -	\$ 721,029

See accompanying notes to the condensed consolidated financial statements.

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**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three and nine months ended September 30, 2017 and 2018**  
(Unaudited)  
(In US\$ except for number of shares)

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

*Principal Activities*

CBAK Energy Technology, Inc. ("CBAK" or the "Company") is a corporation formed in the State of Nevada on October 4, 1999 as Medina Copy, Inc. The Company changed its name to Medina Coffee, Inc. on October 6, 1999 and subsequently changed its name to China BAK Battery, Inc. on February 14, 2005. CBAK and its subsidiaries (hereinafter, collectively referred to as the "Company") are principally engaged in the manufacture, commercialization and distribution of a wide variety of standard and customized lithium ion (known as "Li-ion" or "Li-ion cell") high power rechargeable batteries. Prior to the disposal of BAK International Limited ("BAK International") and its subsidiaries (see below), the batteries produced by the Company were for use in cellular telephones, as well as various other portable electronic applications, including high-power handset telephones, laptop computers, power tools, digital cameras, video camcorders, MP3 players, electric bicycles, hybrid/electric vehicles, and general industrial applications. After the disposal of BAK International and its subsidiaries on June 30, 2014, the Company will focus on the manufacture, commercialization and distribution of high power lithium ion rechargeable batteries for use in cordless power tools, light electric vehicles, hybrid electric vehicles, electric cars, electric busses, uninterruptable power supplies and other high power applications.

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

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

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

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

*Basis of Presentation and Organization*

On November 6, 2004, BAK International, a non-operating holding company that had substantially the same shareholders as Shenzhen BAK Battery Co., Ltd ("Shenzhen BAK"), entered into a share swap transaction with the shareholders of Shenzhen BAK for the purpose of the subsequent reverse acquisition of the Company. The share swap transaction between BAK International and the shareholders of Shenzhen BAK was accounted for as a reverse acquisition of Shenzhen BAK with no adjustment to the historical basis of the assets and liabilities of Shenzhen BAK.

On January 20, 2005, the Company completed a share swap transaction with the shareholders of BAK International. The share swap transaction, also referred to as the "reverse acquisition" of the Company, was consummated under Nevada law pursuant to the terms of a Securities Exchange Agreement entered by and among CBAK, BAK International and the shareholders of BAK International on January 20, 2005. The share swap transaction has been accounted for as a capital-raising transaction of the Company whereby the historical financial statements and operations of Shenzhen BAK are consolidated using historical carrying amounts.

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**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three and nine months ended September 30, 2017 and 2018**  
(Unaudited)  
(In US\$ except for number of shares)

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

*Basis of Presentation and Organization (continued)*

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

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

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

At the time the escrow shares relating to the 2006 performance threshold were transferred to the investors in fiscal year 2007, the Company should have recognized a credit to donated shares and a debit to additional paid-in capital, both of which are elements of shareholders' equity. This entry is not material because total ordinary shares issued and outstanding, total shareholders' equity and total assets do not change; nor is there any impact on income or earnings per share. Therefore, previously filed consolidated financial statements for the fiscal year ended September 30, 2007 will not be restated. This share transfer has been reflected in these financial statements by reclassifying the balances of certain items as of October 1, 2007. The balances of donated shares and additional paid-in capital as of October 1, 2007 were credited and debited by \$7,955,358 respectively, as set out in the consolidated statements of changes in shareholders' equity.

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

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

**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three and nine months ended September 30, 2017 and 2018**  
(Unaudited)  
(In US\$ except for number of shares)

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

*Basis of Presentation and Organization (continued)*

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

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

As of September 30, 2018, the Company had not received any claim from the other investors who have not been covered by the "2008 Settlement Agreements" in the January 2005 private placement.

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

On August 14, 2013, Dalian BAK Trading Co., Ltd was established as a wholly owned subsidiary of China BAK Asia Holding Limited ("BAK Asia") with a registered capital of \$500,000 (Note 19(i)). Pursuant to CBAK Trading's articles of association and relevant PRC regulations, BAK Asia was required to contribute the capital to CBAK Trading on or before August 14, 2015. On March 7, 2017, the name of Dalian BAK Trading Co., Ltd was changed to Dalian CBAK Trading Co., Ltd ("CBAK Trading"). Up to the date of this report, the Company has contributed \$100,000 to CBAK Trading in cash.

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

On May 4, 2018, CBAK New Energy (Suzhou) Co., Ltd ("CBAK Suzhou") was established as an 90% owned subsidiary of CBAK Power with a registered capital of RMB10,000,000 (approximately \$1.5 million). The remaining 10% equity interest was held by certain employees of CBAK Suzhou. Pursuant to CBAK Suzhou's articles of association, each shareholder is entitled to the right of the profit distribution or responsible for the loss according to its proportion to the capital contribution. Pursuant to CBAK Suzhou's articles of association and relevant PRC regulations, CBAK Power was required to contribute the capital to CBAK Suzhou on or before December 31, 2019. Up to the date of this report, the Company has contributed RMB7.6 million (approximately \$1.1 million), and the other shareholders have contributed RMB184,500 (\$26,864) to CBAK Suzhou through injection of a series of cash. CBAK Suzhou is intended to be engaged in manufacturing and selling new energy high power battery packs.

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

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**CBAK Energy Technology, Inc. and subsidiaries**  
**Notes to the condensed consolidated financial statements**  
**For the three and nine months ended September 30, 2017 and 2018**  
(Unaudited)  
(In US\$ except for number of shares)

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

*Basis of Presentation and Organization (continued)*

These condensed consolidated financial statements are unaudited. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these condensed consolidated financial statements, which are of a normal and recurring nature, have been included. The results reported in the condensed consolidated financial statements for any interim periods are not necessarily indicative of the results that may be reported for the entire year. The following (a) condensed consolidated balance sheet as of December 31, 2017, which was derived from the Company's audited financial statements, and (b) the unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to those rules and regulations, though the Company believes that the disclosures made are adequate to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying footnotes of the Company for the year ended December 31, 2017.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. This basis of accounting differs in certain material respects from that used for the preparation of the books of account of the Company's principal subsidiaries, which are prepared in accordance with the accounting principles and the relevant financial regulations applicable to enterprises with limited liability established in the PRC or Hong Kong. The accompanying consolidated financial statements reflect necessary adjustments not recorded in the books of account of the Company's subsidiaries to present them in conformity with US GAAP.

After the disposal of BAK International Limited and its subsidiaries, namely Shenzhen BAK, Shenzhen BAK Power Battery Co., Ltd (formerly BAK Battery (Shenzhen) Co., Ltd.) ("BAK Shenzhen"), BAK International (Tianjin) Ltd. ("BAK Tianjin"), Tianjin Chenhao Technological Development Limited (a subsidiary of BAK Tianjin established on May 8, 2014, "Tianjin Chenhao"), BAK Battery Canada Ltd. ("BAK Canada"), BAK Europe GmbH ("BAK Europe") and BAK Telecom India Private Limited ("BAK India"), effective on June 30, 2014, and as of September 30, 2018, the Company's subsidiaries consisted of: i) China BAK Asia Holdings Limited ("BAK Asia"), a wholly owned limited liability company incorporated in Hong Kong on July 9, 2013; ii) Dalian CBAK Trading Co., Ltd. ("CBAK Trading"), a wholly owned limited company established on August 14, 2013 in the PRC; iii) Dalian CBAK Power Battery Co., Ltd. ("CBAK Power"), a wholly owned limited liability company established on December 27, 2013 in the PRC; and iv) CBAK New Energy (Suzhou) Co., Ltd. ("CBAK Suzhou"), a 90% owned limited liability company established on May 4, 2018 in the PRC.

The Company continued its business and continued to generate revenues from sale of batteries via subcontracting the production to BAK Tianjin, a former subsidiary before the completion of construction and operation of its facility in Dalian. BAK Tianjin had become a supplier of the Company until September 2016 when BAK Tianjin ceased production, and the Company does not have any significant benefits or liability from the operating results of BAK Tianjin except the normal risk with any major supplier.

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

On and effective March 1, 2016, Mr. Xiangqian Li resigned as Chairman, director, Chief Executive Officer, President and Secretary of the Company. On the same date, the Board of Directors of the Company appointed Mr. Yunfei Li as Chairman, Chief Executive Officer, President and Secretary of the Company. On March 4, 2016, Mr. Xiangqian Li transferred 3,000,000 shares to Mr. Yunfei Li for a price of \$2.4 per share. After the share transfer, Mr. Yunfei Li held 3,000,000 shares or 17.3% and Mr. Xiangqian Li held 760,557 shares at 4.4% of the Company's outstanding stock, respectively. As of September 30, 2018, Mr. Yunfei Li held [3,868,518] shares or 14.52% of the Company's outstanding stock, and Mr. Xiangqian Li held none of the Company's outstanding stock.

The Company had a working capital deficiency, accumulated deficit from recurring net losses and short-term debt obligations as of December 31, 2017 and September 30, 2018. These factors raise substantial doubts about the Company's ability to continue as a going concern.

**CBAK Energy Technology, Inc. and subsidiaries**  
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**1. Principal Activities, Basis of Presentation and Organization (continued)**

*Basis of Presentation and Organization (continued)*

In June and July 2015, the Company received advances of approximately \$9.8 million from potential investors. On September 29, 2015, the Company entered into a Debt Conversion Agreement with these investors. Pursuant to the terms of the Debt Conversion Agreement, each of the creditors agreed to convert existing loan principal of \$9,847,644 into an aggregate 4,376,731 shares of common stock of the Company (“the Shares”) at a conversion price of \$2.25 per share. Upon receipt of the Shares on October 16, 2015, the creditors released the Company from all claims, demands and other obligations relating to the Debts. As such, no interest was recognized by the Company on the advances from investors pursuant to the supplemental agreements with investors and the Debt Conversion Agreement.

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

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

As of September 30, 2018, the Company had aggregate interest-bearing bank loans of approximately \$23.0 million, due in 2019 to 2021, in addition to approximately \$91.6 million of other current liabilities.

As of September 30, 2018, the Company had unutilized committed banking facilities of \$16.8 million.

The Company is currently expanding its product lines and manufacturing capacity in its Dalian plant, which requires more funding to finance the expansion. The Company plans to raise additional funds through banks borrowings and equity financing in the future to meet its daily cash demands, if required.

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

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty related to the Company’s ability to continue as a going concern.

*Revenue Recognition*

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

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**CBAK Energy Technology, Inc. and subsidiaries**  
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**1. Principal Activities, Basis of Presentation and Organization (continued)**

*Revenue Recognition (continued)*

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

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

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

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

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

*Recently Issued Accounting Standards*

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

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

In October 2016, the FASB issued ASU No. 2016-16—Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption is permitted. The Company adopted this guidance for the reporting period beginning January 1, 2018, which did not have a material impact on its financial statements or disclosures.

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

**CBAK Energy Technology, Inc. and subsidiaries**  
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**1. Principal Activities, Basis of Presentation and Organization (continued)**

*Recently Issued Accounting Standards (continued)*

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

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

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

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

**2. Pledged deposits**

Pledged deposits as of December 31, 2017 and September 30, 2018 consisted of the following:

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Pledged deposits with bank for:		
Bills payable	\$ 123,116	\$ 10,388,445
Letters of credit	7,685,213	7,280,352
Others*	1,295,849	1,227,583
	<u>\$ 9,104,178</u>	<u>\$ 18,896,380</u>

\* On July 7, 2016, Shenzhen Huijie Purification System Engineering Co., Ltd ("Shenzhen Huijie"), one of the Company's contractors, filed a lawsuit against CBAK Power in the Peoples' Court of Zhuanghe City, Dalian for the failure to pay pursuant to the terms of the contract and entrusted part of the project of the contract to a third party without their prior consent. The plaintiff sought a total amount of \$1,227,583 (RMB 8,430,792), including construction costs of \$0.9 million (RMB6.1 million), interest of \$29,812 (RMB0.2 million) and compensation of \$0.3 million (RMB1.9 million), which we already accrued for as of September 30, 2016. On September 7, 2016, upon the request of Shenzhen Huijie, the Court froze CBAK Power's bank deposits totaling \$1,227,583 (RMB 8,430,792) for a period of one year. On September 1, 2017, upon the request of Shenzhen Huijie, the Court froze the bank deposits for another one year until August 31, 2018. The Court froze the bank deposits for another one year until August 27, 2019 upon the request of Shenzhen Huijie on August 27, 2018.



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

Trade accounts and bills receivable as of December 31, 2017 and September 30, 2018 consisted of the following:

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Trade accounts receivable	\$ 42,095,211	\$ 22,808,582
Less: Allowance for doubtful accounts	<u>(3,700,922)</u>	<u>(3,674,268)</u>
	38,394,289	19,134,314
Bills receivable	19,124,323	9,471,130
	<u>\$ 57,518,612</u>	<u>\$ 28,605,444</u>

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

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Balance at beginning of period	\$ 2,761,144	\$ 3,700,922
Provision for the period	839,917	419,796
Reversal - recoveries by cash	<u>(114,542)</u>	<u>(242,835)</u>
Charged to consolidated statements of operations and comprehensive (loss) income	725,375	176,961
Foreign exchange adjustment	214,403	(203,615)
Balance at end of period	<u>\$ 3,700,922</u>	<u>\$ 3,674,268</u>

**4. Inventories**

Inventories as of December 31, 2017 and September 30, 2018 consisted of the following:

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Raw materials	\$ 1,814,704	\$ 1,686,481
Work in progress	2,188,193	3,196,511
Finished goods	5,829,508	4,241,591
	<u>\$ 9,832,405</u>	<u>\$ 9,124,583</u>

During the three months ended September 30, 2017 and 2018, write-downs of inventories to lower of cost or net realizable value of \$360,778 and \$729,247, respectively, were charged to cost of revenues.

During the nine months ended September 30, 2017 and 2018, write-downs of inventories to lower of cost or net realizable value of \$1,359,182 and \$730,446, respectively, were charged to cost of revenues.

**5. Prepayments and Other Receivables**

Prepayments and other receivables as of December 31, 2017 and September 30, 2018 consisted of the following:

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Value added tax recoverable	\$ 5,963,506	\$ 5,343,106
Prepayments to suppliers	706,488	441,684
Deposits	25,922	110,602
Staff advances	59,942	67,854
Prepaid operating expenses	185,690	303,102
Prepaid interest expenses	-	113,976
Others	<u>37,262</u>	<u>47,465</u>
	6,978,810	6,427,789
Less: Allowance for doubtful accounts	<u>(7,000)</u>	<u>(7,000)</u>
	<u>\$ 6,971,810</u>	<u>\$ 6,420,789</u>

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**6. Payables to Former Subsidiaries**

Payable to former subsidiaries as of December 31, 2017 and September 30, 2018 consisted of the following:

	<i>December 31, 2017</i>	<i>September 30, 2018</i>
BAK Tianjin	\$ 282,682	\$ 161,033
BAK Shenzhen	22,020,039	1,094,011
	<u>\$ 22,302,721</u>	<u>\$ 1,255,044</u>

Balance as of December 31, 2017 and September 30, 2018 consisted of payables for purchase of inventories from BAK Tianjin and BAK Shenzhen. From time to time, the Company purchased products from these former subsidiaries that they did not produce to meet the needs of its customers.

In the third quarter of 2018, the Company disposed of its patented proprietary technology of high capacity prismatic batteries to BAK Shenzhen at a cash consideration of \$13,034,583 (approximately RMB85.1 million). The Company recognized a net gain of \$12,296,776, which was included in other income for the three and nine months ended September 30, 2018. The Company and BAK Shenzhen agreed to offset the cash consideration of \$13,034,583 against the amount owed by the Company to BAK Shenzhen.

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

Property, plant and equipment as of December 31, 2017 and September 30, 2018 consisted of the following:

	<i>December 31, 2017</i>	<i>September 30, 2018</i>
Buildings	\$ 24,979,022	\$ 23,663,112
Machinery and equipment	13,977,734	20,833,717
Office equipment	184,014	194,106
Motor vehicles	206,190	154,308
	<u>39,346,960</u>	<u>44,845,243</u>
Impairment	(1,010,216)	(956,997)
Accumulated depreciation	(3,371,234)	(4,803,749)
Carrying amount	<u>\$ 34,965,510</u>	<u>\$ 39,084,497</u>

During the three months ended September 30, 2017 and 2018, the Company incurred depreciation expense of \$368,630 and \$639,239, respectively.

During the nine months ended September 30, 2017 and 2018, the Company incurred depreciation expense of \$989,325 and \$1,749,608, respectively.

The Company has not yet obtained the property ownership certificates of the buildings in its Dalian manufacturing facilities with a carrying amount of \$23,670,773 and \$21,928,972 as of December 31, 2017 and September 30, 2018, respectively. The Company built its facilities on the land for which it had already obtained the related land use right. The Company has submitted applications to the Chinese government for the ownership certificates on the completed buildings located on these lands. However, the application process takes longer than the Company expected and it has not obtained the certificates as of the date of this report. However, since the Company has obtained the land use right in relation to the land, the management believe the Company has legal title to the buildings thereon albeit the lack of ownership certificates.

During the course of the Company's strategic review of its operations, the Company assessed the recoverability of the carrying value of the Company's property, plant and equipment. The impairment charge, if any, represented the excess of carrying amounts of the Company's property, plant and equipment over the estimated discounted cash flows expected to be generated by the Company's production facilities. The Company believes that there was no impairment during the three and nine months ended September 30, 2017 and 2018.

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**8. Construction in Progress**

Construction in progress as of December 31, 2017 and September 30, 2018 consisted of the following:

	<i>December 31, 2017</i>	<i>September 30, 2018</i>
Construction in progress	\$ 24,288,889	\$ 19,504,361
Prepayment for acquisition of property, plant and equipment	740,401	2,252,061
Carrying amount	<u>\$ 25,029,290</u>	<u>\$ 21,756,422</u>

Construction in progress as of December 31, 2017 and September 30, 2018 was mainly comprised of capital expenditures for the construction of the facilities and production lines of CBAK Power.

For the three months ended September 30, 2017 and 2018, the Company capitalized interest of \$346,962 and \$195,994, respectively, to the cost of construction in progress.

For the nine months ended September 30, 2017 and 2018, the Company capitalized interest of \$1,050,474 and \$912,702, respectively, to the cost of construction in progress.

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

Prepaid land use rights as of December 31, 2017 and September 30, 2018 consisted of the followings:

	<i>December 31, 2017</i>	<i>September 30, 2018</i>
Prepaid land use rights	\$ 8,634,993	\$ 8,180,096
Accumulated amortization	(590,058)	(681,675)
	\$ 8,044,935	\$ 7,498,421
Less: Classified as current assets	(172,700)	(163,602)
	<u>\$ 7,872,235</u>	<u>\$ 7,334,819</u>

Pursuant to a land use rights acquisition agreement dated August 10, 2014, the Company acquired the rights to use a piece of land with an area of 153,832 m<sup>2</sup> in Dalian Economic Zone for 50 years up to August 9, 2064, at a total consideration of \$7,727,365 (RMB53.1 million). Other incidental costs incurred totaled \$452,731 (RMB3.1 million).

Amortization expenses of the prepaid land use rights were \$42,085 and \$40,764 for the three months ended September 30, 2017 and 2018 and \$123,797 and \$129,006 for the nine months ended September 30, 2017 and 2018, respectively.

**10. Intangible Assets, net**

Intangible assets as of December 31, 2017 and September 30, 2018 consisted of the followings:

	<i>December 31, 2017</i>	<i>September 30, 2018</i>
Computer software at cost	\$ 27,340	\$ 31,298
Accumulated amortization	(7,291)	(9,299)
	<u>\$ 20,049</u>	<u>\$ 21,999</u>

Amortization expenses were \$666 and \$1,118 for the three months ended September 30, 2017 and 2018 and \$1,959 and \$2,515 for the nine months ended September 30, 2017 and 2018, respectively.

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**11. Trade Accounts and Bills Payable**

Trade accounts and bills payable as of December 31, 2017 and September 30, 2018 consisted of the followings:

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Trade accounts payable	\$ 29,805,350	\$ 26,684,247
Bills payable		
- Bank acceptance bills (Note 12)	34,025,080	33,427,220
- Commercial acceptance bills	1,786,113	1,073,255
	<u>\$ 65,616,543</u>	<u>\$ 61,184,722</u>

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

The bank acceptance bills were pledged by:

- (i) the Company's bank deposits (Note 2);and
- (ii) \$19,047,471 and \$9,427,448 of the Company's bills receivable as of December 31, 2017 and September 30, 2018, respectively (Note 3).

**12. Loans**

Bank loans:

Bank borrowings as of December 31, 2017 and September 30, 2018 consisted of the followings

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Current maturities of long-term bank loans	\$ -	\$ 4,368,211
Long-term bank borrowings	19,489,702	18,681,383
	<u>\$ 19,489,702</u>	<u>\$ 23,049,594</u>

On June 14, 2016, the Company renewed its banking facilities from Bank of Dandong for loans with a maximum amount of RMB130 million (approximately \$18.9 million), including three-year long-term loans and three-year revolving bank acceptance and letters of credit bills for the period from June 13, 2016 to June 12, 2019. The banking facilities were guaranteed by Mr. Yunfei Li ("Mr. Li"), the Company's CEO, and Ms. Qinghui Yuan, Mr. Li's wife, Mr. Xianqian Li, the Company's former CEO, Ms. Xiaoqiu Yu, the wife of the Company's former CEO, Shenzhen BAK Battery Co., Ltd., the Company's former subsidiary ("Shenzhen BAK"). Under the banking facilities, the Company borrowed various three-year term bank loans that totaled RMB126.8 million (approximately \$18.5 million), bearing fixed interest at 7.2% per annum. The Company also borrowed various bank acceptance of RMB3.2 million (approximately \$0.5 million) under the facilities. The Company repaid the loan and bank acceptance bills on June 12, 2018.

In the second quarter of 2018, the Company obtained another banking facilities from Bank of Dandong with bank acceptance bills of RMB5.0 million (approximately \$0.7 million) for a term until October 17, 2018. As of September 30, 2018, the Company has borrowed a series of bank acceptance bills totaled RMB 5.0 million (approximately \$0.7 million) for a term until October 17, 2018, which was secured by bank deposit of \$0.7 million. The Company repaid the bank acceptance bills on October 17, 2018.

On July 6, 2016, the Company obtained banking facilities from Bank of Dalian for loans with a maximum amount of RMB10 million (approximately \$1.5 million) and bank acceptance bills of RMB40 million (approximately \$5.8 million) to July 5, 2017. The banking facilities were guaranteed by Mr. Li, the Company's CEO, and Ms. Qinghui Yuan, Mr. Li's wife, and Shenzhen BAK. Under the banking facilities, on July 6, 2016 the Company borrowed one year short-term loan of RMB10 million (approximately \$1.5 million), bearing a fixed interest rate at 6.525% per annum. The Company also borrowed revolving bank acceptance totaled \$5.8 million, and bank deposit of 50% was required to secure against these bank acceptance bills. The Company repaid the loan and bank acceptance bills in July and August 2017.

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**12. Loans (continued)**

On November 9, 2017, the Company obtained banking facilities from China Everbright Bank Dalian Branch with a maximum amount of RMB100 million (approximately \$14.6 million) with the term expiring on November 7, 2018. The banking facilities were secured by the 100% equity in CBAK Power held by BAK Asia. Under the facilities, bank deposits of approximately 50% were required to secure against this letter of credit. As of September 30, 2018, the Company borrowed a net letter of credit of RMB99.6 million (approximately \$14.5 million) to November 5, 2018, which was secured by bank deposits of \$7.3 million. The Company discounted this letter of credit of even date to China Everbright Bank at a rate of 4.505%. The Company repaid the letter of credit on November 7, 2018.

On June 4, 2018, the Company obtained banking facilities from China Everbright Bank Dalian Branch with a maximum amount of RMB200 million (approximately \$29.1 million) with the term from June 12, 2018 to June 10, 2021, bearing interest at 130% of benchmark rate of the People's Bank of China ("PBOC") for three-year long-term loans, at current rate 6.175% per annum. The loans are repayable in six installments of RMB1.0 million (\$0.15 million) on December 10, 2018, RMB29.0 million (\$4.22 million) on June 10, 2019, RMB1.0 million (\$0.15 million) on December 10, 2019, RMB89.0 million (\$12.96 million) on June 10, 2020, RMB1.0 million (\$0.15 million) on December 10, 2020 and RMB37.3 million (\$5.43 million) on June 10, 2021. Under the facilities, the Company borrowed RMB158.3 million (approximately \$23.1 million) as of September 30, 2018. The facilities were secured by the Company's land use rights, buildings, machinery and equipment.

Further, in August 2018, the Company borrowed a total of RMB60 million (approximately \$8.8 million) in the form of bills payable from China Everbright Bank Dalian Branch for a term until August 14, 2019, which was secured by the Company's cash totaled \$8.8 million. The Company discounted these two bills payable of even date to China Everbright Bank at a rate of 4.0%.

On August 22, 2018, the Company obtained one-year term facilities from China Everbright Bank Dalian Branch with a maximum amount of RMB100 million (approximately \$14.6 million) including revolving loans, trade finance, notes discount, and acceptance of commercial bills etc. Any amount drawn under the facilities requires security in the form of cash or banking acceptance bills receivables of at least the same amount. Under the facilities, as of September 30, 2018, the Company borrowed a series of bank acceptance bills totaled RMB 26.3 million (approximately \$3.8 million) for a term until March 7, 2019, which was secured by bills receivable of \$4.4 million.

On August 2, 2017, the Company obtained one-year term facilities from China Merchants Bank with a maximum amount of RMB100 million (approximately \$14.6 million) including revolving loans, trade finance, notes discount, and acceptance of commercial bills etc. Any amount drawn under the facilities requires security in the form of cash or banking acceptance bills receivable of at least the same amount. Under the facilities, as of September 30, 2018, the Company borrowed a series of bank acceptance bills from China Merchants Bank totaled RMB21.3 million (approximately \$3.1 million) for a term until October 25, 2018, which was secured by bills receivable of \$3.07 million and bank deposits of \$0.03 million. The facilities expired on August 1, 2018 and the Company repaid the bills on October 25, 2018.

As of September 30, 2018, the Company also borrowed a series of acceptance bills from Industrial Bank Co., Ltd. Dalian Branch totaled RMB19.5 million (approximately \$2.8 million) for various terms through February 8, 2019, which was secured by bank deposits of \$0.9 million and bills receivable of \$1.9 million.

In November 2018, the Company borrowed a total of RMB100 million (approximately \$14.6 million) in the form of bills payable from China Everbright Bank Dalian Branch for a term until November 12, 2019, which was secured by the Company's cash totaled RMB 50 million (approximately \$7.3 million) and the 100% equity in CBAK Power held by BAK Asia. The Company discounted these five bills payable of even date to China Everbright Bank at a rate of 4.0%.

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

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Pledged deposits (note 2)	\$ 7,808,329	\$ 17,668,797
Prepaid land use rights (note 9)	8,044,935	7,498,421
Buildings	18,391,993	16,848,321
Machinery and equipment	2,374,748	6,420,884
Bills receivable (note 3)	19,047,471	9,427,448
	<u>\$ 55,667,476</u>	<u>\$ 57,863,871</u>

As of September 30, 2018, the Company had unutilized committed banking facilities of \$16.8 million.

During the three months ended September 30, 2017 and 2018, interest of \$346,962 and \$537,033, respectively, was incurred on the Company's bank borrowings.

During the nine months ended September 30, 2017 and 2018, interest of \$1,050,474 and \$1,633,731, respectively, was incurred on the Company's bank borrowings.



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**12. Loans (continued)**Other Short-term Loans

Other short-term loans as of December 31, 2017 and September 30, 2018 consisted of the following:

	<i>Note</i>	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Advance from related parties			
– Tianjin BAK New Energy Research Institute Co., Ltd (“Tianjin New Energy”)	(a)	\$ 11,493,437	\$ 13,139,584
– Mr. Xiangqian Li, the Company’s Former CEO	(b)	100,000	100,000
– Mr. Yunfei Li	(c)	-	116,486
– Shareholders	(d)	2,151,860	2,038,499
		<u>13,745,297</u>	<u>15,394,569</u>
Advances from unrelated third party			
– Mr. Wenwu Yu	(e)	155,215	147,038
– Mr. Mingzhe Li	(e)	44,269	-
– Ms. Longqian Peng	(e)	691,669	655,231
– Hubei Yanguang Energy Technology., Ltd	(e)	-	72,804
		<u>891,153</u>	<u>875,073</u>
		<u>\$ 14,636,450</u>	<u>\$ 16,269,642</u>

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

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**13. Accrued Expenses and Other Payables**

Accrued expenses and other payables as of December 31, 2017 and September 30, 2018 consisted of the following:

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Construction costs payable	\$ 1,405,651	\$ 1,147,404
Equipment purchase payable	8,241,844	7,421,151
Liquidated damages (note a)	1,210,119	1,210,119
Accrued staff costs	1,804,546	1,909,713
Compensation costs (note 20(ii))	116,989	110,826
Customer deposits	270,923	18,258
Other payables and accruals	1,158,875	920,647
	<u>\$ 14,208,947</u>	<u>\$ 12,738,118</u>

- (a) On August 15, 2006, the SEC declared effective a post-effective amendment that the Company had filed on August 4, 2006, terminating the effectiveness of a resale registration statement on Form SB-2 that had been filed pursuant to a registration rights agreement with certain shareholders to register the resale of shares held by those shareholders. The Company subsequently filed Form S-1 for these shareholders. On December 8, 2006, the Company filed its Annual Report on Form 10-K for the year ended September 30, 2006 (the "2006 Form 10-K"). After the filing of the 2006 Form 10-K, the Company's previously filed registration statement on Form S-1 was no longer available for resale by the selling shareholders whose shares were included in such Form S-1. Under the registration rights agreement, those selling shareholders became eligible for liquidated damages from the Company relating to the above two events totaling approximately \$1,051,000. As of December 31, 2017 and September 30, 2018, no liquidated damages relating to both events have been paid.

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

On December 21, 2007, pursuant to the registration rights agreement, the Company filed a registration statement on Form S-3, which was declared effective by the SEC on May 7, 2008. As a result, the Company estimated liquidated damages amounting to \$561,174 for the November 2007 registration rights agreement. As of December 31, 2017 and September 30, 2018, the Company had settled the liquidated damages with all the investors and the remaining provision of approximately \$159,000 was included in other payables and accruals.



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**14. Deferred Government Grants**

Deferred government grants as of December 31, 2017 and September 30, 2018 consist of the following:

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
Total government grants	\$ 4,864,131	\$ 4,499,889
Less: Current portion	(152,003)	(143,995)
Non-current portion	<u>\$ 4,712,128</u>	<u>\$ 4,355,894</u>

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

On October 17, 2014, the Company received a subsidy of RMB46,150,000 pursuant to an agreement with the Management Committee dated July 2, 2013 for costs of land use rights and to be used to construct the new manufacturing site in Dalian. Part of the facilities had been completed and was operated in July 2015 and the Company has initiated amortization on a straight-line basis over the estimated useful lives of the depreciable facilities constructed thereon.

The Company offset government grants of \$36,029 and \$35,878 for the three months ended September 30, 2017 and 2018 and \$108,959 and \$113,545 for the nine months ended September 30, 2017 and 2018, respectively, against depreciation expenses of the Dalian facilities.

**15. Product Warranty Provision**

The Company maintains a policy of providing after sales support for certain of its new EV and LEV battery products introduced since October 1, 2015 by way of a warranty program. The limited cover covers a period of six to twelve months for battery cells, a period of twelve to twenty seven months for battery modules for light electric vehicles (LEV) such as electric bicycles, and a period of three years to eight years (or 120,000 or 200,000 km if reached sooner) for battery modules for electric vehicles (EV). The Company accrues an estimate of its exposure to warranty claims based on both current and historical product sales data and warranty costs incurred. The Company assesses the adequacy of its recorded warranty liability at least annually and adjusts the amounts as necessary.

**16. Income Taxes, Deferred Tax Assets and Deferred Tax Liabilities**

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

The Company's provision for income taxes expenses consisted of:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
PRC income tax:				
Current	\$ -	\$ -	\$ -	\$ -
Deferred	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**United States Tax**

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

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

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

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

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

No provision for income taxes in the United States or elsewhere has been made as CBAK had no taxable income for the three and nine months ended September 30, 2017 and 2018.

**Hong Kong Tax**

BAK Asia is subject to Hong Kong profits tax rate of 16.5% and did not have any assessable profits arising in or derived from Hong Kong for the three and nine months ended September 30, 2017 and 2018 and accordingly no provision for Hong Kong profits tax was made in these periods.

**PRC Tax**

The Company's subsidiaries in China are subject to enterprise income tax at 25% for the three months and nine months ended September 30, 2017 and 2018.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2018	2017	2018
(Loss) Income before income taxes	\$ (4,202,753)	\$ 7,920,563	\$ (10,024,349)	\$ 1,907,042
United States federal corporate income tax rate	35%	21%	35%	21%
Income tax (credit) expenses computed at United States statutory corporate income tax rate	(1,470,963)	1,663,318	(3,508,522)	400,479
Reconciling items:				
Rate differential for PRC earnings	391,875	322,253	897,639	106,397
Non-deductible expenses	48,901	21,333	144,669	118,383
Share based payments	50,500	7,172	222,436	39,691
Recognition of tax losses previously not Recognized	-	(132,104)	-	(132,104)
Valuation allowance on deferred tax assets	979,687	(1,881,972)	2,243,778	(532,846)
Income tax expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

(a) *Deferred tax assets and deferred tax liabilities*

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2017 and September 30, 2018 are presented below:

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
<b>Deferred tax assets</b>		
Trade accounts receivable	\$ 1,098,183	\$ 888,841
Inventories	1,772,444	1,852,758
Property, plant and equipment	781,227	819,299
Provision for product warranty	569,958	511,284
Net operating loss carried forward	25,892,299	25,509,082
Valuation allowance	(30,114,111)	(29,581,264)
Deferred tax assets, non-current	<u>\$ -</u>	<u>\$ -</u>
<b>Deferred tax liabilities, non-current</b>	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2017 and September 30, 2018, the Company's U.S. entity had net operating loss carry forwards of \$103,580,741, of which \$102,293 available to reduce future taxable income which will expire in various years through 2035 and \$103,478,448 available to offset capital gains recognized in the succeeding 5 tax years and the Company's PRC subsidiaries had net operating loss carry forwards of \$16,561,373 and \$15,028,507, respectively, which will expire in various years through 2023. Management believes it is more likely than not that the Company will not realize these potential tax benefits as these operations will not generate any operating profits in the foreseeable future. As a result, a valuation allowance was provided against the full amount of the potential tax benefits.

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

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

The significant uncertain tax position arose from the subsidies granted by the local government for the Company's PRC subsidiary, which may be modified or challenged by the central government or the tax authority. A reconciliation of January 1, 2018 through September 30, 2018 amount of unrecognized tax benefits excluding interest and penalties ("Gross UTB") is as follows:

	<u>Gross UTB</u>	<u>Surcharge</u>	<u>Net UTB</u>
Balance as of January 1, 2018	\$ 7,537,273	\$ -	\$ 7,537,273
Decrease in unrecognized tax benefits taken in current period	(397,068)	-	(397,068)
Balance as of September 30, 2018	<u>\$ 7,140,205</u>	<u>\$ -</u>	<u>\$ 7,140,205</u>

As of December 31, 2017 and September 30, 2018, the Company had not accrued any interest and penalties related to unrecognized tax benefits.

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**17. Share-based Compensation**

*Restricted Shares*

Restricted shares granted on June 30, 2015

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

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

The Company recorded non-cash share-based compensation expense of \$54,321 and \$230,305 for three and nine months ended September 30, 2017, in respect of the restricted shares granted on June 30, 2015, respectively.

The Company recorded non-cash share-based compensation expense of \$nil and \$17,160 for three and nine months ended September, 2018, in respect of the restricted shares granted on June 30, 2015, respectively.

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

Non-vested shares as of January 1, 2018	55,000
Granted	-
Vested	(55,000)
Forfeited	-
Non-vested shares as of September 30, 2018	<u>          -</u>

As of September 30, 2018, there was no unrecognized stock-based compensation associated with the above restricted shares. As of September 30, 2018, 10,005 vested shares were to be issued.

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

Restricted shares granted on April 19, 2016

On April 19, 2016, pursuant to the Company's 2015 Equity Incentive Plan, the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") granted an aggregate of 500,000 restricted shares of the Company's common stock, par value \$0.001 (the "Restricted Shares"), to certain employees, officers and directors of the Company, of which 220,000 restricted shares were granted to the Company's executive officers and directors. There are three types of vesting schedules. First, if the number of restricted shares granted is below 3,000, the shares will vest annually in 2 equal installments over a two year period with the first vesting on June 30, 2017. Second, if the number of restricted shares granted is larger than or equal to 3,000 and is below 10,000, the shares will vest annually in 3 equal installments over a three year period with the first vesting on June 30, 2017. Third, if the number of restricted shares granted is above or equal to 10,000, the shares will vest semi-annually in 6 equal installments over a three year period with the first vesting on December 31, 2016. The fair value of these restricted shares was \$2.68 per share on April 19, 2016. The Company recognizes the share-based compensation expenses over the vesting period (or the requisite service period) on a graded-vesting method.

The Company recorded non-cash share-based compensation expense of \$89,963 and \$405,225 for the three and nine months ended September 30, 2017, in respect of the restricted shares granted on April 19, 2016, respectively.

The Company recorded non-cash share-based compensation expense of \$34,148 and \$171,842 for the three and nine months ended September 30, 2018, in respect of the restricted shares granted on April 19, 2016, respectively.

As of September 30, 2018, non-vested restricted shares granted on April 19, 2016 are as follows:

Non-vested shares as of January 1, 2018	255,500
Granted	-
Vested	(104,332)
Forfeited	(9,835)
Non-vested shares as of September 30, 2018	<u>141,333</u>

As of September 30, 2018, there was unrecognized stock-based compensation of \$68,818 associated with the above restricted shares. As of September 30, 2018, 3,333 vested shares were to be issued.

As the Company itself is an investment holding company which is not expected to generate operating profits to realize the tax benefits arising from its net operating loss carried forward, no income tax benefits were recognized for such stock-based compensation cost under the stock option plan for the three and nine months ended September 30, 2017 and 2018.

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**18. Income (Loss) Per Share**

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

	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>
Net (loss) income	\$ (4,202,753)	\$ 7,920,563	\$ (10,024,349)	\$ 1,907,042
Less: Net loss attributable to non-controlling interests	-	7,964	-	11,457
Net (loss) income attributable to shareholders of CBAK Energy Technology, Inc.	<u>(4,202,753)</u>	<u>7,928,527</u>	<u>(10,024,349)</u>	<u>1,918,499</u>
Weighted average shares outstanding – basic (note)	26,334,918	26,660,814	22,174,315	26,642,749
Dilutive unvested restricted stock	-	47,632	-	81,131
Weighted average shares outstanding – diluted	<u>26,334,918</u>	<u>26,708,446</u>	<u>22,174,315</u>	<u>26,723,880</u>
(Loss) income per share of common stock				
Basic	<u>\$ (0.16)</u>	<u>\$ 0.30</u>	<u>\$ (0.45)</u>	<u>\$ 0.07</u>
Diluted	<u>\$ (0.16)</u>	<u>\$ 0.30</u>	<u>\$ (0.45)</u>	<u>\$ 0.07</u>

Note: Including 166,003 vested restricted shares granted pursuant to the 2015 Plan that were not yet issued for the three and nine months ended September 30, 2017; and 13,338 vested restricted shares granted pursuant to the 2015 Plan that were not yet issued for the three and nine months ended September 30, 2018.

For the three and nine months ended September 30, 2017, 424,666 unvested restricted shares were anti-dilutive and excluded from shares used in the diluted computation.

**19. Fair Value of Financial Instruments**

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

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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**20. Commitments and Contingencies**

(i) *Capital Commitments*

As of December 31, 2017 and September 30, 2018, the Company had the following contracted capital commitments:

	<i>December 31,</i> <i>2017</i>	<i>September 30,</i> <i>2018</i>
For construction of buildings	\$ 2,053,489	\$ 3,445,062
For purchases of equipment	-	1,990,965
Capital injection to CBAK Suzhou and CBAK Trading <sup>Note</sup>	400,000	603,850
	<u>\$ 2,453,489</u>	<u>\$ 6,039,877</u>

Note: Initially, BAK Asia was required to pay the remaining capital within two years, of the date of issuance of the subsidiary's business license according to PRC registration capital management rules. According to the revised PRC Companies Law which became effective on March 2014, the time requirement of the registered capital contribution has been abolished. As such, BAK Asia has its discretion to consider the timing of the registered capital contributions. On April and May 2017, Dalian BAK Power received \$9,495,974 injected from BAK Asia.

CBAK Power is required to pay up the remaining capital to CBAK Suzhou on or before December 31, 2019 (Note 1).

(ii) *Litigation*

From time to time, the Company may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business. Other than the legal proceeding set forth below, the Company is currently not aware of any such legal proceedings or claims that the Company believe will have an adverse effect on our business, financial condition or operating results.

On July 7, 2016, Shenzhen Huijie Purification System Engineering Co., Ltd ("Shenzhen Huijie"), one of the Company's contractors, filed a lawsuit against CBAK Power in the Peoples' Court of Zhuanghe City, Dalian, for the failure to pay pursuant to the terms of the contract and entrusted part of the project of the contract to a third party without their prior consent. The plaintiff sought a total amount of \$1,227,583 (RMB 8,430,792), including construction costs of \$0.9 million (RMB6.1 million, which the Company already accrued for at June 30, 2016), interest of \$29,812 (RMB0.2 million) and compensation of \$0.3 million (RMB1.9 million). On September 7, 2016, upon the request of Shenzhen Huijie for property preservation, the Court of Zhuanghe froze CBAK Power's bank deposits totaling \$1,227,583 (RMB 8,430,792) for a period of one year. On September 1, 2017, upon the request of Shenzhen Huijie, the Court of Zhuanghe froze the bank deposits for another one year until August 31, 2018. Further on August 27, 2018, the court of Zhuanghe froze the bank deposits for another one year until August 27, 2019, upon the request of Shenzhen Huijie. On June 30, 2017, according to the trial of first instance, the Court of Zhuanghe ruled that CBAK Power should pay the remaining contract amount of RMB6,135,860 (approximately \$0.9 million) claimed by Shenzhen Huijie as well as other expenses incurred including deferred interest, discounted charge on bills payable, litigation fee and property preservation fee totaled \$0.1 million, the Company has accrued for these amounts as of September 30, 2018. On July 24, 2017, CBAK Power filed an appellate petition to the Intermediate Peoples' Court of Dalian ("Court of Dalian") challenging the lower court's judgement rendered on June 30, 2017. On November 17, 2017, the Court of Dalian rescinded the original judgment and remand the case to the Court of Zhuanghe for retrial. The Court of Zhuanghe did a retrial and determined an appraisal to be performed by a third-party appraisal institution on the construction cost incurred and completed by Shenzhen Huijie on the subject project. On November 8, 2018, the Company received from the Court of Zhuanghe the construction-cost-appraisal report which determined that the construction cost incurred and completed by Shenzhen Huijie for the subject project to be \$1,330,186 (RMB9,129,868). As of September 30, 2018, the Company has already paid \$ 1.6 million (RMB 11.0 million) and accrued \$0.9 million (RMB 6.1 million) for the construction cost incurred and completed by Shenzhen Huijie.

In late February 2018, CBAK Power received a notice from the Court of Zhuanghe that Shenzhen Huijie filed another lawsuit against CBAK Power for the failure to perform pursuant to the terms of a fire-control contract. The plaintiff sought a total amount of RMB244,942 (\$35,665), including construction costs of RMB238,735 (\$34,762) and interest of RMB6,207 (\$904), the Company has accrued for these amounts as of September 30, 2018. On October 16, 2018, the Court of Zhuanghe issued a judgment that because certain items as stipulated in the fire-control contract were not completed by Shenzhen Huijie, the Company is liable to pay only RMB77,043 (\$11,218) and interest thereon accruing from July 24, 2017 to Shenzhen Huijie.

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

(ii) *Litigation (continued)*

In May 2017, CBAK Power filed a lawsuit in the Court of Zhuanghe against Pingxiang Anyuan Tourism Bus Manufacturing Co., Ltd., (“Anyuan Bus”) one of CBAK Power’s customers, for failure to pay pursuant to the terms of the sales contract. CBAK Power sought a total amount of RMB18,279,858 (\$2,661,676), including goods amount of RMB17,428,000 (\$2,537,639) and interest of RMB851,858 (\$124,037). On December 19, 2017, the Court of Zhuanghe determined that Anyuan Bus should pay the goods amount of RMB17,428,000 (\$2,537,639) and the interest until the goods amount was paid off, and a litigation fee of RMB131,480 (\$19,144). The trial went into effect in February 2018 and is currently in the execution phase. As of December 31, 2017 and September 30, 2018, the Company had made a full provision against the receivable from Anyuan Bus of RMB17,428,000 (\$2,537,639). On June 29, 2018, the Company filed an application with the Court of Zhuanghe for enforcement of the trial against all of Anyuan Bus’ shareholders, including Jiangxi Zhixin Automobile Co., Ltd, Anyuan Bus Manufacturing Co., Ltd, Anyuan Coal Group Co., Ltd, Qian Ronghua, Qian Bo and Li Junfu. On October 22, 2018, the Court of Zhuanghe issued a judgment supporting the Company’s application that all the Anyuan Bus’ shareholders should be liable to pay the Company the debt as confirmed under the trial. If the shareholders do not appeal within fifteen days of receiving the notice from the Court, the judgment will become effective and will be enforced for execution against them.



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**21. Concentrations and Credit Risk**

(a) *Concentrations*

The Company had the following customers that individually comprised 10% or more of net revenue for the three months ended September 30, 2017 and 2018 as follows:

	Three months ended September 30,			
	2017		2018	
Customer A	\$ 9,477,104	53.39%	\$ *	*
Customer B	7,368,320	41.51%	*	*
Customer C	*	*	1,672,191	29.92%
Customer D	*	*	2,081,697	37.24%
Customer E	*	*	852,331	15.25%

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

The Company had the following customers that individually comprised 10% or more of net revenue for the nine months ended September 30, 2017 and 2018 as follows:

	Nine months ended September 30,			
	2017		2018	
Customer A	\$ 18,132,366	65.21%	\$ *	*
Customer B	7,504,870	26.99%	*	*
Customer C	*	*	5,374,871	35.95%
Customer D	*	*	2,081,697	13.92%

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

The Company had the following customers that individually comprised 10% or more of accounts receivable (net) as of December 31, 2017 and September 30, 2018 as follows:

	December 31, 2017		September 30, 2018	
	Customer B	\$ 23,835,201	62.08%	\$ 6,323,630
Customer C	*	*	3,325,111	17.38%
Customer D	*	*	2,296,768	12.00%
Customer F	4,855,518	12.65%	3,536,795	18.48%
Customer G	4,664,285	12.15%	*	*

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

For the three and nine months ended September 30, 2017 and 2018, the Company recorded the following transactions:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2018	2017	2018
Purchase of inventories from BAK Shenzhen** Zhengzhou BAK Battery Co., Ltd*	\$ 9,248,609	\$ -	\$ 13,527,981	\$ 108,718
	-	-	-	2,062,432
Sales of finished goods to BAK Tianjin BAK Shenzhen** Zhengzhou BAK Battery Co., Ltd*	55,533	4,073	98,233	31,610
	728	-	61,525	-
	163	-	13,811	-
Proceeds on disposal of patented proprietary technology offset against amount due to BAK Shenzhen (Note 6)**	\$ -	\$ 13,034,583	\$ -	\$ 13,034,583

\* Mr. Xiangqian Li, the former CEO, is a director of this company. As of September 30, 2018 and December 31, 2017, payable to Zhengzhou BAK Battery Co., Ltd were \$2,295,131 and nil, respectively, was included in trade accounts and bills payable.

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

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**21. Concentrations and Credit Risk (continued)**

(b) *Credit Risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents and pledged deposits. As of December 31, 2017 and September 30, 2018, substantially all of the Company's cash and cash equivalents were held by major financial institutions located in the PRC, which management believes are of high credit quality.

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

**22. Segment Information**

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

After the disposal of BAK International and its subsidiaries (see Note 1), the Company focused on producing high-power lithium battery cells. Net revenues for the three and nine months ended September 30, 2017 and 2018 were as follows:

*Net revenues by product:*

	Three months ended September 30,		Nine months ended September 30,	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
High power lithium batteries used in:				
Electric vehicles	\$ 16,934,181	\$ 2,280,763	\$ 25,998,924	\$ 4,099,646
Light electric vehicles	281,978	44,195	485,001	64,315
Uninterruptable supplies	534,551	3,264,413	1,322,188	10,788,509
Total	<u>\$ 17,750,710</u>	<u>\$ 5,589,371</u>	<u>\$ 27,806,113</u>	<u>\$ 14,952,470</u>

*Net revenues by geographic area:*

	Three months ended September 30,		Nine months ended September 30,	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
Mainland China	\$ 17,529,058	\$ 3,799,136	\$ 26,976,060	\$ 12,299,525
USA	-	1,765,193	-	1,858,225
Europe	123,601	(2,765)	294,322	101,466
PRC Taiwan	2,201	(2,512)	221,574	96,513
Israel	26,763	30,988	244,122	537,757
Others	69,087	(669)	70,035	58,984
Total	<u>\$ 17,750,710</u>	<u>\$ 5,589,371</u>	<u>\$ 27,806,113</u>	<u>\$ 14,952,470</u>

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

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

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

**Special Note Regarding Forward Looking Statements**

In addition to historical information, this transition report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as "believe," "expect," "anticipate," "project," "target," "plan," "optimistic," "intend," "aim," "will" or similar expressions which are intended to identify forward-looking statements. Such statements include, among others, those concerning market and industry segment growth and demand and acceptance of new and existing products; any projections of sales, earnings, revenue, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding future economic conditions or performance; as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, including those identified in Item 1A, "Risk Factors" described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as well as assumptions, which, if they were to ever materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements.

Readers are urged to carefully review and consider the various disclosures made by us in this report and our other filings with the SEC. These reports attempt to advise interested parties of the risks and factors that may affect our business, financial condition and results of operations and prospects. The forward-looking statements made in this report speak only as of the date hereof and we disclaim any obligation, except as required by law, to provide updates, revisions or amendments to any forward-looking statements to reflect changes in our expectations or future events.

**Use of Terms**

Except as otherwise indicated by the context and for the purposes of this report only, references in this report to:

- "Company", "we", "us" and "our" are to the combined business of CBAK Energy Technology, Inc., a Nevada corporation, and its consolidated subsidiaries;
- "BAK Asia" are to our Hong Kong subsidiary, China BAK Asia Holdings Limited;
- "CBAK Trading" are to our PRC subsidiary, Dalian CBAK Trading Co., Ltd.;
- "CBAK Power" are to our PRC subsidiary, Dalian CBAK Power Battery Co., Ltd.;
- "CBAK Suzhou" are to our PRC subsidiary, CBAK New Energy (Suzhou) Co., Ltd.;
- "China" and "PRC" are to the People's Republic of China;
- "RMB" are to Renminbi, the legal currency of China;
- "U.S. dollar", "\$" and "US\$" are to the legal currency of the United States;
- "SEC" are to the United States Securities and Exchange Commission;
- "Securities Act" are to the Securities Act of 1933, as amended; and
- "Exchange Act" are to the Securities Exchange Act of 1934, as amended.

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

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

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

On May 4, 2018, CBAK New Energy (Suzhou) Co., Ltd, a subsidiary of CBAK Power, was established in Suzhou, China. CBAK Suzhou is intended to be engaged in manufacturing and selling new energy high power battery packs.

## Overview

Our Dalian manufacturing facilities began its partial commercial operations in July 2015. We are now engaged in the business of developing, manufacturing and selling new energy high power lithium batteries, which are mainly used in the following applications:

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

We have received most of the operating assets, including customers, employees, patents and technologies of our former subsidiary, BAK International (Tianjin) Ltd. (“BAK Tianjin”). Such assets were acquired in exchange for a reduction in receivables from our former subsidiaries that were disposed in June 2014. We have outsourced and will continue to outsource our production to other manufacturers until our Dalian manufacturing facility can fulfill our customers’ needs, if necessary.

We generated revenues of \$17.8 million and \$5.6 million for the three months ended September 30, 2017 and 2018, respectively. We had a net loss of \$4.2 million and a net profit of \$7.9 million in the three months ended September 30, 2017 and 2018, respectively. As of September 30, 2018, we had an accumulated deficit of \$161.5 million and net assets of \$4.0 million. We had a working capital deficiency and accumulated deficit from recurring net losses and short-term debt obligations maturing in less than one year as of September 30, 2018.

On June 14, 2016, we renewed our banking facilities from Bank of Dandong for loans with a maximum amount of RMB130 million (approximately \$18.9 million), including three-year long-term loans and three-year revolving bank acceptance and letters of credit bills for the period from June 13, 2016 to June 12, 2019. The banking facilities were guaranteed by Mr. Yunfei Li (“Mr. Li”), our CEO, and Ms. Qinghui Yuan, Mr. Li’s wife, Mr. Xianqian Li, our former CEO, Ms. Xiaoqiu Yu, the wife of our former CEO, Shenzhen BAK Battery Co., Ltd., our former subsidiary (“Shenzhen BAK”). The facilities were also secured by part of our Dalian site’s prepaid land use rights, buildings, construction in progress, machinery and equipment and pledged deposits. Under the banking facilities, we borrowed various three-year term bank loans that totaled RMB126.8 million (approximately \$18.5 million), bearing fixed interest at 7.2% per annum. We also borrowed a series of revolving bank acceptance totaled \$0.5 million from Bank of Dandong under the credit facilities, and bank deposit of 50% was required to secure against these bank acceptance bills. We repaid the loan and bank acceptance bills on June 12, 2018.

In the second quarter of 2018, we obtained another banking facilities from Bank of Dandong with bank acceptance bills of RMB5.0 million (approximately \$0.7 million) for a term until October 17, 2018. As of September 30, 2018, we have borrowed a series of bank acceptance bills totaled RMB 5.0 million (approximately \$0.7 million) for a term until October 17, 2018, which was secured by bank deposit of \$0.7 million. We repaid the bank acceptance bills on October 17, 2018.

On July 6, 2016, we obtained banking facilities from Bank of Dalian for loans with a maximum amount of RMB10 million (approximately \$1.5 million) and bank acceptance bills of RMB40 million (approximately \$5.8 million) to July 2017. The banking facilities were guaranteed by Mr. Li, our CEO, and Ms. Qinghui Yuan, Mr. Li’s wife, and Shenzhen BAK. Under the banking facilities, on July 6, 2016 we borrowed one year short-term loan of RMB10 million (approximately \$1.5 million), bearing a fixed interest rate at 6.525% per annum. We also borrowed revolving bank acceptance totaled \$5.8 million, and bank deposit of 50% was required to secure against these bank acceptance bills. We repaid the loan and bank acceptance bills in July and August 2017.

On November 9, 2017, we obtained banking facilities from China Everbright Bank Dalian Branch with a maximum amount of RMB100 million (approximately \$14.6 million) with the term expiring on November 7, 2018. The banking facilities were secured by the 100% equity in CBAK Power held by BAK Asia. As of September 30, 2018, we borrowed a net letter of credit of RMB99.6 million (approximately \$14.5 million) to November 5, 2018. Under the facilities, bank deposits of approximately 50% was required to secure against this letter of credit. We discounted this letter of credit of even date to China Everbright Bank at a rate of 4.505% . We repaid the letter of credit on November 7, 2018.

On June 4, 2018, we obtained banking facilities from China Everbright Bank Dalian Branch with a maximum amount of RMB200 million (approximately \$29.1 million) with the term from June 12, 2018 to June 10, 2021, bearing interest at 130% of benchmark rate of the People's Bank of China ("PBOC") for three-year long-term loans, which is currently 6.175% per annum. Under the facilities, we borrowed RMB126.0 million (\$18.3 million), RMB 23.3 million (\$3.4 million) and RMB9.0 million (\$1.3 million) on June 12, June 20, September 20, 2018, respectively. The loans are repayable in six installments of RMB1.0 million (\$0.15 million) on December 10, 2018, RMB29.0 million (\$4.2 million) on June 10, 2019, RMB1.0 million (\$0.14 million) on December 10, 2019, RMB89.0 million (\$13.0 million) on June 10, 2020, RMB1.0 million (\$0.14 million) on December 10, 2020 and RMB37.3 million (\$5.43 million) on June 10, 2021. Under the facilities, we borrowed RMB158.3 million (approximately \$23.1 million) as of September 30, 2018. The facilities were secured by our Dalian site's land use rights and part of our Dalian site's buildings, machinery and equipment. Further in August 2018, we borrowed a total of RMB60 million (approximately \$8.8 million) in the form of bills payable from China Everbright Bank Dalian Branch for a term until August 14, 2019, which was secured by our cash totaled \$8.8 million. We discounted these two bills payable of even date to China Everbright Bank at a rate of 4.0% .

On August 22, 2018, we obtained one-year term facilities from China Everbright Bank Dalian Branch with a maximum amount of RMB100 million (approximately \$14.6 million) including revolving loans, trade finance, notes discount, and acceptance of commercial bills etc. Any amount drawn under the facilities requires security in the form of cash or banking acceptance bills receivables of at least the same amount. Under the facilities, as of September 30, 2018, we borrowed a series of bank acceptance bills totaled RMB 26.3 million (approximately \$3.8 million) for a term until March 7, 2019, which was secured by bills receivables of \$4.4 million.

On August 2, 2017, we obtained one-year term facilities from China Merchants Bank with a maximum amount of RMB100 million (approximately \$14.6 million) including revolving loans, trade finance, notes discount, and acceptance of commercial bills etc. Any amount drawn under the facilities requires security in the form of cash or banking acceptance bills receivable of at least the same amount. Under the facilities, as of September 30, 2018, we borrowed a series of bank acceptance bills from China Merchants Bank totaled RMB23.3 million (approximately \$3.1 million) for a term until October 25, 2018, which was secured by bills receivables of \$3.07 million bills receivables and bank deposits of \$0.03 million. The facilities expired on August 1, 2018 and we repaid the bills on October 25, 2018.

As of September 30, 2018, we also borrowed a series of acceptance bills from Industrial Bank Co., Ltd. Dalian Branch totaled RMB19.5 million (approximately \$2.8 million) for various terms through February 8, 2019, which was secured by bank deposits of \$0.9 million and bills receivable of \$1.9 million.

In November 2018, we borrowed a total of RMB100 million (approximately \$14.6 million) in the form of bills payable from China Everbright Bank Dalian Branch for a term until November 12, 2019, which was secured by our cash totaled RMB50 million (approximately \$7.3 million) and the 100% equity in CBAK Power held by BAK Asia. We discounted these five bills payable of even date to China Everbright Bank at a rate of 4.0%.

As of September 30, 2018, we had unutilized committed banking facilities of \$16.8 million. We plan to renew these loans upon maturity, and intend to raise additional funds through bank borrowings and equity financing in the future to meet our daily cash demands, if required.

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

On February 17, 2017, we signed a letter of understanding with each of eight individual investors, who are also our current shareholders, including our CEO, Mr. Yunfei Li, whereby these shareholders agreed in principle to subscribe for new shares of our common stock totaling \$10 million. The issue price was determined with reference to the market price prior to the issuance of new shares. In January 2017, the shareholders paid us a total of \$2.1 million as refundable deposits, among which, Mr. Yunfei Li agreed to subscribe new shares totaling \$1.12 million and pay a refundable deposit of \$0.2 million. In April and May 2017, we received cash of \$9.6 million from these shareholders. On May 31, 2017, we entered into a securities purchase agreement with these investors, pursuant to which we agreed to issue an aggregate of 6,403,518 shares of common stock, par value \$0.001 per share to these investors, at a purchase price of \$1.50 per share, for an aggregate price of \$9.6 million, including 764,018 shares were issued to Mr. Yunfei Li, our CEO. On June 22, 2017, we issued the shares to the investors. The issuance of the shares to the investors was made in reliance on the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended, for the offer and sale of securities not involving a public offering, and Regulation S promulgated thereunder.

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

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

Pursuant to the “Notice on Adjusting and Improving the Policy of Financial Subsidy for the Promotion and Application of New Energy Vehicles” jointly released by the Ministry of Finance, the Ministry of Industry and Information Technology, the Ministry of Science and Technology and the National Development and Reform Commission of the PRC on February 12, 2018, new subsidy standards have been implemented for new energy vehicles sold in China after June 12, 2018. As a result, new energy vehicles will receive different subsidies based on their driving range and technical performance. New energy vehicles providing long driving range and high technical performance will get higher subsidies. The implementation of the new subsidy policies should in a long term result in a healthy development of the new energy vehicles market as a whole. However, in a short term many electric vehicle manufacturers are inevitably negatively impacted by the new subsidy policies, and the price of EV batteries in Chinese market decreased sharply as a result. Given the adverse market environment, we plan to focus our resources on the existing prismatic batteries and uninterruptable power batteries and temporarily reduce the investment on R&D of new products for electric vehicle market before it returns to a less volatile environment. In September 2018, we transferred a patented proprietary high capacity prismatic battery technology, which we had been developing since 2017, to Shenzhen BAK Power Battery Co., Ltd (“BAK Shenzhen”), our former subsidiary, with a consideration of RMB85,144,500 (approximately \$13.0 million).

#### **Financial Performance Highlights for the Quarter Ended September 30, 2018**

The following are some financial highlights for the quarter ended September 30, 2018:

- **Net revenues:** Net revenues decreased by \$12.2 million, or 68.5%, to \$5.6 million for the three months ended September 30, 2018, from \$17.8 million for the same period in 2017.
- **Gross loss:** Gross loss was \$1.84 million, representing an increase of \$0.48 million, for the three months ended September 30, 2018, from a gross loss of \$1.36 million for the same period in 2017.
- **Operating loss:** Operating loss was \$4.1 million for the three months ended September 30, 2018, reflecting a decrease of \$0.1 million from an operating loss of \$4.2 million for the same period in 2017.
- **Other income (expense):** Other income was \$12.3 million for the three months ended September 30, 2018, as compared with other expense of \$14,295 of the same period in 2017. We recorded a gain on the transfer of our patented proprietary technology of \$12.3 million in the third quarter of 2018.
- **Net income (loss):** Net income was \$7.9 million for the three months ended September 30, 2018, as compared to net loss of \$4.2 million for the same period in 2017.
- **Fully diluted income (loss) per share:** Fully diluted income per share was \$0.30 for the three months ended September 30, 2018, as compared to fully diluted loss per share of \$0.16 for the same period in 2017.

## Financial Statement Presentation

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

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

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

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

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

Pursuant to the Provisional Regulation of China on Value Added Tax and its implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay VAT at a rate of 17% of the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayer. Further, when exporting goods, the exporter is entitled to some or all of the refund of VAT that it has already paid or borne. Our imported raw materials that are used for manufacturing exported products and deposited in bonded warehouses are exempt from import VAT.

**Cost of revenues.** Cost of revenues consists primarily of material costs, employee remuneration for staff engaged in production activity, share-based compensation, depreciation and related expenses that are directly attributable to the production of products. Cost of revenues also includes write-downs of inventory to lower of cost and net realizable value.

**Research and development expenses.** Research and development expenses primarily consist of remuneration for R&D staff, share-based compensation, depreciation and maintenance expenses relating to R&D equipment, and R&D material costs.

**Sales and marketing expenses.** Sales and marketing expenses consist primarily of remuneration for staff involved in selling and marketing efforts, including staff engaged in the packaging of goods for shipment, advertising cost, depreciation, share-based compensation, travel and entertainment expenses and product warranty expense. We do not pay slotting fees to retail companies for displaying our products, engage in cooperative advertising programs, participate in buy-down programs or similar arrangements.

**General and administrative expenses.** General and administrative expenses consist primarily of employee remuneration, share-based compensation, professional fees, insurance, benefits, general office expenses, depreciation, liquidated damage charges and bad debt expenses.

**Finance costs, net.** Finance costs consist primarily of interest income and interest on bank loans, net of capitalized interest.

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

**Results of Operations****Comparison of Three Months Ended September 30, 2017 and 2018**

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

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

	<b>Three Months ended September 30,</b>		<b>Change</b>	
	<b>2017</b>	<b>2018</b>	<b>\$</b>	<b>%</b>
Net revenues	\$ 17,751	\$ 5,589	(12,162)	(68.51)
Cost of revenues	(19,111)	(7,427)	11,684	61.14
Gross loss	(1,360)	(1,838)	(478)	(35.15)
Operating expenses:				
Research and development expenses	372	604	232	62.37
Sales and marketing expenses	1,136	370	(766)	(67.42)
General and administrative expenses	1,329	1,303	(26)	(1.96)
Total operating expenses	2,837	2,277	(560)	(19.74)
Operating loss	(4,197)	(4,115)	82	1.95
Finance income (expense), net	9	(299)	(308)	(3,422.22)
Other (expense) income, net	(14)	12,335	12,349	88,207.14
(Loss) Income before income tax	(4,202)	7,921	12,123	288.51
Income tax expenses	-	-	-	
Net (loss) income	(4,202)	7,921	12,123	288.51
Less: Net loss attributable to non-controlling interests	-	8	8	100.00
Net (loss) income attributable to shareholders of CBAK Energy Technology, Inc.	\$ (4,202)	\$ 7,929	12,131	288.67

**Net revenues.** Net revenues were \$5.6 million for the three months ended September 30, 2018, as compared to \$17.8 million for the same period in 2017, representing a decrease of \$12.2 million, or 68.5% .

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

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

	<b>Three months ended September 30,</b>		<b>Change</b>	
	<b>2017</b>	<b>2018</b>	<b>\$</b>	<b>%</b>
High power lithium batteries used in:				
Electric vehicles	\$ 16,934	\$ 2,281	(14,653)	(86.53)
Light electric vehicles	282	44	(238)	(84.40)
Uninterruptable supplies	535	3,264	2,729	510.09
Total	\$ 17,751	\$ 5,589	(12,162)	(68.51)

Net revenues from sales of batteries for electric vehicles were \$2.3 million for the three months ended September 30, 2018 as compared to \$16.9 million in the same period of 2017, representing a decrease of \$14.6 million, or 86.5% . Our revenues are adversely impacted by the reduction of government subsidy to new energy vehicles. Pursuant to the "Notice on Adjusting and Improving the Policy of Financial Subsidy for the Promotion and Application of New Energy Vehicles" jointly released by the Ministry of Finance, the Ministry of Industry and Information Technology, the Ministry of Science and Technology and the National Development and Reform Commission of the PRC on February 12, 2018, new energy vehicles will receive different subsidies based on their driving range and technical performance. Vehicles having long driving range and high technical performance will get higher subsidies. New subsidy standards took effect officially on June 12, 2018. As a result, at both national and local levels, subsidies available to purchasers of new energy vehicles are in decline. Given the new subsidy policy's negative impact on electric vehicle manufactures, as a temporary measure, we reduced our production of batteries used in EV and focused more on batteries of uninterruptable supplies. However, we believe the above policies will in long term encourage the production of new energy vehicles, optimize the structure of the new energy vehicles industry, enhance technical standards of the industry and strengthen its core competitiveness, and ultimately foster strategic development of the new energy vehicles.

Net revenues from sales of batteries for light electric vehicles was approximately \$44,000 for the three months ended September 30, 2018, compared to approximately \$0.2 million in the same period of 2017, representing a decrease of approximately \$0.2 million, or 84.4% . Since we face fierce competition in light electric vehicles, our orders from light electric vehicles decreased.



Net revenues from sales of batteries for uninterruptable power supplies was \$3.3 million for the three months ended September 30, 2018, as compared with \$0.54 million in the same period in 2017, representing an increase of \$2.7 million, or 510.1% . As we focused more on this market in 2018, sale of batteries for uninterruptable power supplies increased sharply.

**Cost of revenues.** Cost of revenues decreased to \$7.4 million for the three months ended September 30, 2018, as compared to \$19.1 million for the same period in 2017, a decrease of \$11.7 million, or 61.1% . Included in cost of revenues were write down of obsolete inventories of \$0.7 million for three months ended September 30, 2018, while cost of revenues were write down of obsolete inventories was \$0.4 million for the same period in 2017. We write down the inventory value whenever there is an indication that it is impaired, the increase in provision of inventory is mainly due to the increase of inventory with ageing over 1 year. However, further write-down may be necessary if market conditions continue to deteriorate.

**Gross loss.** Gross loss for the three months ended September 30, 2018 was \$1.8 million, or 32.9% of net revenues, as compared to gross loss of \$1.4 million, or 7.7% of net revenues for the same period in 2017. Our new Dalian facilities commenced manufacturing activities in July 2015. Inefficiency was inevitably caused by the operation of the newly installed machinery and newly hired production staff. We continued our efforts to improve our efficiency and tried to reduce gross loss both in dollar term and percentage term through improvement in quality control and product mix to meet market demand.

**Research and development expenses.** Research and development expenses increased to \$0.6 million for the three months ended September 30, 2018, as compared to \$0.4 million for the same period in 2017, an increase of \$0.2 million, or 62.4% . We continued to hire more R&D personnel and incur more R&D activities on testing new materials with an aim to diversify our raw material supply sources, reduce our exposure to possible price fluctuations and to improve our product quality.

**Sales and marketing expenses.** Sales and marketing expenses decreased to \$0.4 million for the three months ended September 30, 2018, as compared to approximately \$1.1 million for the same period in 2017, a decrease of approximately \$0.8 million, or 67.4% . The decrease in sales and marketing expenses was mainly due to a decrease in provision for warranty expenses. For the quarter ended September 30, 2018, we sold more uninterruptable supplies with shorter warranty period requirements than electric vehicle batteries.

**General and administrative expenses.** General and administrative expenses remained flat at \$1.3 million for the three months ended September 30, 2018 and 2017.

**Operating loss.** As a result of the above, our operating loss totaled \$4.1 million for the three months ended September 30, 2018, as compared to \$4.2 million for the same period in 2017, representing a decrease of \$0.1 million, or 2.0% .

**Other income (expenses):** Other income was \$12.3 million for the three months ended September 30, 2018, as compared to other expenses of approximately \$14,000 for the same period 2017. We recorded a gain on the transfer of our patented proprietary technology to BAK Shenzhen of \$12.3 million in the third quarter of 2018.

**Net income (loss).** As a result of the foregoing, we had a net income of \$7.9 million for the three months ended September 30, 2018, compared to a net loss of \$4.2 million for the same period in 2017.

### **Comparison of Nine Months Ended September 30, 2017 and 2018**

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

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

	<b>Nine Months ended September 30,</b>		<b>Change</b>	
	<b>2017</b>	<b>2018</b>	<b>\$</b>	<b>%</b>
Net revenues	\$ 27,806	\$ 14,952	(12,854)	(46.23)
Cost of revenues	(31,075)	(18,186)	12,889	41.48
Gross loss	(3,269)	(3,234)	35	1.07
Operating expenses:				
Research and development expenses	1,336	1,969	633	47.38
Sales and marketing expenses	1,821	984	(837)	(45.96)
General and administrative expenses	3,471	3,632	161	4.64
Total operating expenses	6,628	6,585	(43)	(0.65)
Operating loss	(9,897)	(9,819)	78	0.79
Finance expense, net	(87)	(605)	(518)	(595.40)
Other (expense) income, net	(40)	12,331	12,371	30,927.50
(Loss) Income before income tax	(10,024)	1,907	11,931	119.02
Income tax expenses	-	-	-	-
Net (loss) income	(10,024)	1,907	11,931	119.02
Less: Net loss attributable to non-controlling interests	-	11	11	100.00
Net loss (income) attributable to shareholders of CBAK Energy Technology, Inc.	(10,024)	1,918	11,942	119.13

**Net revenues.** Net revenues were \$15.0 million for the nine months ended September 30, 2018, as compared to \$27.8 million for the same period in 2017, representing a decrease of \$12.9 million, or 46.2% .

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

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

	<i>Nine months ended September 30,</i>		<b>Change</b>	
	<i>2017</i>	<i>2018</i>	<b>\$</b>	<b>%</b>
High power lithium batteries used in:				
Electric vehicles	\$ 25,999	\$ 4,100	(21,899)	(84.23)
Light electric vehicles	485	64	(421)	(86.80)
Uninterruptable supplies	1,322	10,788	9,466	716.04
Total	<u>\$ 27,806</u>	<u>\$ 14,952</u>	<u>(12,854)</u>	<u>(46.23)</u>

Net revenues from sales of batteries for electric vehicles were \$4.1 million for the nine months ended September 30, 2018 as compared to \$26.0 million in the same period of 2017, representing a decrease of \$21.9 million, or 84.2%. As a result of the recent unfavorable government subsidy policy for electric vehicle manufacturers in 2018, we reduced EV battery production and focused more on batteries for uninterruptable supplies.

Net revenues from sales of batteries for light electric vehicles was approximately \$64,000 for the nine months ended September 30, 2018, compared to \$0.5 million in the same period of 2017, representing a decrease of \$0.4 million, or 86.8% . We face fierce competition in light electric vehicles, and our orders from light electric vehicles decreased.

Net revenues from sales of batteries for uninterruptable power supplies was \$10.8 million in the nine months ended September 30, 2018, as compared with \$1.3 million in the same period in 2017, representing an increase of \$9.5 million, or 716.0% . As we focused more on this market in 2018, sale of batteries for uninterruptable power supplies increased sharply.

**Cost of revenues.** Cost of revenues decreased to \$18.2 million for the nine months ended September 30, 2018, as compared to \$31.1 million for the same period in 2017, a decrease of \$12.9 million, or 41.5% . Included in cost of revenues were write down of obsolete inventories of \$0.7 million for nine months ended September 30, 2018, while cost of revenues were write down of obsolete inventories was \$1.4 million for the same period in 2017. We write down the inventory value whenever there is an indication that it is impaired, the increase in provision of inventory is mainly due to the increase of inventory with ageing over 1 year. However, further write-down may be necessary if market conditions continue to deteriorate.

**Gross loss.** Gross loss for the nine months ended September 30, 2018 was \$3.2 million, or 21.6% of net revenues as compared to gross loss of \$3.3 million, or 11.8% of net revenues, for the same period in 2017, a decrease of \$35,000. Our new Dalian facilities commenced manufacturing activities in July 2015. Inefficiency was inevitably caused by the operation of the newly installed machinery and newly hired production staff. We continued our efforts to improve our efficiency and tried to reduce gross loss both in dollar term and percentage term through improvement in quality control and product mix to meet market demand.

**Research and development expenses.** Research and development expenses increased to approximately \$2.0 million for the nine months ended September 30, 2018, as compared to approximately \$1.3 million for the same period in 2017, an increase of \$0.6 million, or 47.4% . We continued to hire more R&D personnel and incur more R&D activities on testing new materials with an aim to diversify our raw material supply sources, reduce our exposure to possible price fluctuations and to improve our product quality.

**Sales and marketing expenses.** Sales and marketing expenses decreased to \$1.0 million for the nine months ended September 30, 2018, as compared to \$1.8 million for the same period in 2017, a decrease of \$0.8 million, or 46.0% . The decrease in sales and marketing expenses was mainly due to a decrease in provision for warranty expenses. In 2018, we sold more uninterruptable supplies with shorter warranty period requirements than electric vehicle batteries as compared to the same period of 2017.

**General and administrative expenses.** General and administrative expenses increased to \$3.6 million for the nine months ended September 30, 2018, as compared to \$3.5 million for the same period in 2017, representing an increase of \$0.2 million, or 4.6% . The increase in general and administrative expenses was mainly resulted from a \$0.2 million reversal of compensation costs in relation to the litigation with Shenzhen Huijie in the nine months ended September 30, 2017 as described more below.

**Operating loss.** As a result of the above, our operating loss totaled \$9.8 million for the nine months ended September 30, 2018, as compared to \$9.9 million for the same period in 2017, representing a decrease of \$78,000, or 0.8% .

**Financial expense.** Financial expense increased to \$0.6 million for the nine months ended September 30, 2018, as compared to approximately \$87,000 for the same period last year, an increase of \$0.5 million, or 595.4% . Interest expenses in 2018 increased as result of our higher average bank loan balances.

**Other (expenses) income:** Other income was \$12.3 million for the nine months ended September 30, 2018, as compared to other expenses of approximately \$40,000 for the same period 2017. We recorded a gain on the transfer of our patented proprietary technology to BAK Shenzhen of \$12.3 million in the third quarter of 2018.

**Net income (loss).** As a result of the foregoing, we had a net income of \$1.9 million for the nine months ended September 30, 2018, compared to a net loss of \$10.0 million for the same period in 2017.

#### **Liquidity and Capital Resources**

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

As of September 30, 2018, we had cash and cash equivalents of \$0.7 million. Our total current assets were \$64.0 million and our total current liabilities were \$96.0 million, resulting in a net working capital deficiency of \$32.0 million. These factors raise substantial doubts about our ability to continue as a going concern.

As disclosed under Item 2 of PART I, "BUSINESS—Overview", we have obtained \$9.6 million and \$nil through equity financing in 2017 and 2018, respectively, and we also have obtained banking facilities from various local banks in China. As of September 30, 2018, we had unutilized committed banking facilities of \$16.8 million.

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

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

The accompanying condensed consolidated financial statements have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty related to our ability to continue as a going concern.

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

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

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2018</b>
Net cash (used in) provided by operating activities	\$ (6,532)	\$ 9,141
Net cash used in investing activities	(8,739)	(6,561)
Net cash provided by financing activities	12,466	7,371
Effect of exchange rate changes on cash and cash equivalents and restricted cash	204	(1,053)
Net (decrease) increase in cash and cash equivalents and restricted cash	(2,601)	8,898
Cash and cash equivalents and restricted cash at the beginning of period	4,687	10,749
Cash and cash equivalents and restricted cash at the end of period	<u>\$ 2,086</u>	<u>\$ 19,647</u>

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

Net cash provided by operating activities was \$9.1 million in the nine months ended September 30, 2018, as compared to net cash used in operating activities of \$6.5 million in the same period in 2017. The net cash provided by operating activities was mainly attributable to a decrease of \$27.0 million for trade accounts and bills receivable, partially offset by our net loss (before gain on transfer of our patented proprietary technology, and excluding non-cash depreciation and amortization) of \$8.6 million, cash outflows of \$8.6 million on settlement to our former subsidiaries, and cash outflows of \$1.2 million on settlement of trade accounts and bills payable.

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

Net cash used in investing activities was \$6.6 million for the nine months ended September 30, 2018, as compared to \$8.7 million in the same period of 2017. The net cash used in investing activities in 2018 and 2017 mainly include purchase of property, plant and equipment and construction in progress.

#### ***Financing Activities***

Net cash provided by financing activities was \$7.4 million in the nine months ended September 30, 2018, compared to \$12.5 million during the same period in 2017. The net cash provided by financing activities in the nine months ended September 30, 2018 mainly comprised bank borrowings of \$24.2 million and advances from related parties of \$10.7 million, partially offset by repayment of bank borrowings of \$19.4 million and repayment to related parties of \$8.2 million.

As of September 30, 2018, the principal amounts outstanding under our credit facilities and lines of credit were as follows:

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

	<u>Maximum amount available</u>	<u>Amount borrowed</u>
<b>Long-term credit facilities:</b>		
China Everbright Bank	\$ 29,121	\$ 23,050
<b>Short-term credit facilities:</b>		
China Merchants Bank	\$ 3,105	\$ 3,105
<b>Other lines of credit:</b>		
Bank of Dandong	\$ 724	\$ 724
China Everbright Bank	37,487	26,758
Industrial Bank Co. Ltd	2,840	2,840
	<u>\$ 41,051</u>	<u>\$ 30,322</u>
Total	<u>\$ 73,277</u>	<u>\$ 56,477</u>

**Capital Expenditures**

We incurred capital expenditures of \$8.7 million and \$6.6 million in the nine months ended September 30, 2017 and 2018, respectively. Our capital expenditures were used primarily to construct our manufacturing facilities in Dalian.

We estimate that our total capital expenditures for the year ending December 31, 2018 will reach approximately \$13.6 million. Such funds will be used to expand new automatic manufacturing lines to fulfill our customer demands.

**Contractual Obligations and Commercial Commitments**

The following table sets forth our contractual obligations and commercial commitments as of September 30, 2018:

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

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Contractual Obligations					
Current maturities of long-term bank loans	\$ 4,368	\$ 4,368	\$ -	-	\$ -
Long-term bank loans	18,681	-	18,681	-	-
Bills payable	34,500	34,500	-	-	-
Payable to former subsidiaries	1,255	1,255	-	-	-
Other short-term loans	16,270	16,270	-	-	-
Capital injection to Dalian Trading	400	400	-	-	-
Capital injection to CBAK Suzhou	204	-	204	-	-
Capital commitments for construction of buildings	3,445	3,445	-	-	-
Capital commitments for purchase of equipment	1,991	1,991	-	-	-
Future interest payment on bank loans	2,499	1,338	1,161	-	-
Total	<u>\$ 83,613</u>	<u>\$ 63,567</u>	<u>\$ 20,046</u>	<u>-</u>	<u>\$ -</u>

Other than the contractual obligations and commercial commitments set forth above, we did not have any other long-term debt obligations, operating lease obligations, capital commitments, purchase obligations or other long-term liabilities as of September 30, 2018.

**Off-Balance Sheet Transactions**

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

**Critical Accounting Policies**

Our condensed consolidated financial information has been prepared in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (3) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

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

**Changes in Accounting Standards**

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable.

**ITEM 4. CONTROLS AND PROCEDURES.****Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15 under the Exchange Act, our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2018. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Management conducted its evaluation of disclosure controls and procedures under the supervision of our Chief Executive Officer and our Chief Financial Officer. Based upon, and as of the date of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were ineffective as of September 30, 2018.

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

- We did not have appropriate policies and procedures in place to evaluate the proper accounting and disclosures of key documents and agreements.
- We do not have sufficient and skilled accounting personnel with an appropriate level of technical accounting knowledge and experience in the application of accounting principles generally accepted in the United States commensurate with our financial reporting requirements.

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

- Mr. Wenwu Wang was appointed by the Board of Directors of the Company as the Chief Financial Officer on August 21, 2017.
- We plan to make necessary changes by providing training to our financial team and our other relevant personnel on the U.S. GAAP accounting guidelines applicable to our financial reporting requirements.

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

#### **Changes in Internal Control over Financial Reporting**

Except for the matters described above, there were no changes in our internal controls over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II** **OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

On July 7, 2016, Shenzhen Huijie Purification System Engineering Co., Ltd (“Shenzhen Huijie”), one of our contractors, filed a lawsuit against CBAK Power in the Peoples’ Court of Zhuanghe City, Dalian, for the failure to pay pursuant to the terms of the contract and entrusted part of the project of the contract to a third party without their prior consent. The plaintiff sought a total amount of \$1,227,583 (RMB 8,430,792), including construction costs of \$0.9 million (RMB6.1 million, which wepany already accrued for at June 30, 2016), interest of \$29,812 (RMB0.2 million) and compensation of \$0.3 million (RMB1.9 million). On September 7, 2016, upon the request of Shenzhen Huijie for property preservation, the Court of Zhuanghe froze CBAK Power’s bank deposits totaling \$1,227,583 (RMB 8,430,792) for a period of one year. On September 1, 2017, upon the request of Shenzhen Huijie, the Court of Zhuanghe froze the bank deposits for another one year until August 31, 2018. Further on August 27, 2018, the court of Zhuanghe froze the bank deposits for another one year until August 27, 2019, upon the request of Shenzhen Huijie. On June 30, 2017, according to the trial of first instance, the Court of Zhuanghe ruled that CBAK Power should pay the remaining contract amount of RMB6,135,860 (approximately \$0.9 million) claimed by Shenzhen Huijie as well as other expenses incurred including deferred interest, discounted charge on bills payable, litigation fee and property preservation fee totaled \$0.1 million, we have accrued for these amounts as of September 30, 2018. On July 24, 2017, CBAK Power filed an appellate petition to the Intermediate Peoples’ Court of Dalian (“Court of Dalian”) challenging the lower court’s judgement rendered on June 30, 2017. On November 17, 2017, the Court of Dalian rescinded the original judgment and remand the case to the Court of Zhuanghe for retrial. The Court of Zhuanghe did a retrial and requested an appraisal to be performed by a third-party appraisal institution on the construction cost incurred and completed by Shenzhen Huijie on the subject project. On November 8, 2018, we received from the Court of Zhuanghe that construction-cost-appraisal report which determined that the construction cost incurred and completed by Shenzhen Huijie for the subject project to be \$1,330,186 (RMB9,129,868). As of September 30, 2018, we have already paid \$1.6 million (RMB 11.0 million) and accrued \$0.9 million (RMB 6.1 million) for the construction cost incurred and completed by Shenzhen Huijie.

In late February 2018, CBAK Power received a notice from the Court of Zhuanghe that Shenzhen Huijie filed another lawsuit against CBAK Power for the failure to perform pursuant to the terms of a fire-control contract. The plaintiff sought a total amount of RMB244,942 (\$35,665), including construction costs of RMB238,735 (\$34,762) and interest of RMB6,207 (\$904), we have accrued for these amounts as of September 30, 2018. On October 16, 2018, the Court of Zhuanghe issued a judgment that because certain items as stipulated in the fire-control contract were not completed by Shenzhen Huijie, we are liable to pay only RMB77,043 (\$11,218) and interest thereon accruing from July 24, 2017 to Shenzhen Huijie.

In May 2017, CBAK Power filed a lawsuit in the Court of Zhuanghe against Pingxiang Anyuan Tourism Bus Manufacturing Co., Ltd., (“Anyuan Bus”) one of CBAK Power’s customers, for failure to pay pursuant to the terms of the sales contract. CBAK Power sought a total amount of RMB18,279,858 (\$2,661,676), including goods amount of RMB17,428,000 (\$2,537,639) and interest of RMB851,858 (\$124,037). On December 19, 2017, the Court of Zhuanghe determined that Anyuan Bus should pay the goods amount of RMB17,428,000 (\$2,537,639) and the interest until the goods amount was paid off, and a litigation fee of RMB131,480 (\$19,144). The trial went into effect in February 2018 and is currently in the execution phase. As of December 31, 2017 and September 30, 2018, we had made a full provision against the receivable from Anyuan Bus of RMB17,428,000 (\$2,537,639). On June 29, 2018, we filed an application with the Court of Zhuanghe for enforcement of the trial against all of Anyuan Bus’ shareholders, including Jiangxi Zhixin Automobile Co., Ltd, Anyuan Bus Manufacturing Co., Ltd, Anyuan Coal Group Co., Ltd, Qian Ronghua, Qian Bo and Li Junfu. On October 22, 2018, the Court of Zhuanghe issued a judgment supporting our application that all the Anyuan Bus’ shareholders should be liable to pay us the debt as confirmed under the trial. If the shareholders do not appeal within fifteen days of receiving the notice from the Court, the judgment will become effective and will be enforced for execution against them.

#### **ITEM 1A. RISK FACTORS.**

There are no material changes from the risk factors previously disclosed in Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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

None.

#### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

#### **ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

#### **ITEM 5. OTHER INFORMATION.**

On September 30, 2018, our subsidiary CBAK Power entered into a technology transfer agreement with BAK Shenzhen, pursuant to which we transferred patented proprietary technologies and know-how of high capacity prismatic batteries to BAK Shenzhen for a consideration of RMB 85,144,500 (approximately \$13.0 million). BAK Shenzhen and we agreed to offset the cash consideration against the amount owed by us to BAK Shenzhen. According to the agreement, we are prohibited from researching, developing or manufacturing products based on the transferred technologies within five years after the transfer. We may not transfer the same technologies to a third party either. A copy of summary of this agreement is included as Exhibit 10.1 to this Report and is hereby incorporated by reference herein.

#### **ITEM 6. EXHIBITS.**

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

<b>Exhibit No.</b>	<b>Description</b>
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<a href="#">10.1</a>	<a href="#">Summary of Technology Transfer Agreement by and between CBAK Power and BAK Shenzhen, dated as of September 30, 2018.</a>
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<u>Exhibit No.</u>	<u>Description</u>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>32.1</u></a>	<a href="#"><u>Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>32.2</u></a>	<a href="#"><u>Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>101.INS</u></a>	<a href="#"><u>XBRL Instance Document</u></a>
<a href="#"><u>101.SCH</u></a>	<a href="#"><u>XBRL Taxonomy Extension Schema Document</u></a>
<a href="#"><u>101.CAL</u></a>	<a href="#"><u>XBRL Taxonomy Extension Calculation Linkbase Document</u></a>
<a href="#"><u>101.DEF</u></a>	<a href="#"><u>XBRL Taxonomy Extension Definition Linkbase Document</u></a>
<a href="#"><u>101.LAB</u></a>	<a href="#"><u>XBRL Taxonomy Extension Label Linkbase Document</u></a>
<a href="#"><u>101.PRE</u></a>	<a href="#"><u>XBRL Taxonomy Extension Presentation Linkbase Document</u></a>

**SIGNATURES**

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

Date: November 19, 2018

**CBAK ENERGY TECHNOLOGY, INC.**

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

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

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