ADVANCED BATTERY TECHNOLOGIES, INC.
Form 10KSB
March 28, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark one)

[X]

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

For the fiscal year ended: December 31, 2007

Or

[ ]

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: 0-13337

ADVANCED BATTERY TECHNOLOGIES, INC.
(Name of Small Business Issuer in its Charter)

Delaware	**22-2497491**
(State or Other Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
21 West 39th Street, Suite 2A, New York, NY	**10018**
(Address of principal executive offices)	(Zip Code)

(212) 391-2752

(Registrant s telephone number including area code)

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

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, $.001 par value per share

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]   No [   ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B in this form, and no disclosure will be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

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

State the issuer s revenues for its most recent fiscal year: $ 31,897,618.

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

The aggregate market value of the Registrant s common stock, $.001 par value, held by non-affiliates as of March 26, 2008 was $ 194,029,067.

As of March 26, 2008 the number of shares outstanding of the Registrant s common stock was 49,688,998 shares, $.001 par value.

Transitional Small Business Disclosure Format:

Yes [   ]   No   [X]

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DOCUMENTS INCORPORATED BY REFERENCE: None

FORWARD-LOOKING STATEMENTS: NO ASSURANCES INTENDED

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

PART 1

Item 1. Business

Advanced Battery Technologies, Inc. is a holding company with one subsidiary: Cashtech Investment Limited, a British Virgin Islands corporation. Cashtech Investment Limited is also a holding company with only one subsidiary: Heilongjiang ZhongQiang Power-Tech Co., Ltd., a China limited liability company (ZQ Power-Tech). Prior to January 2006, Cashtech Investment Limited owned 70% of the capital stock of ZQ Power-Tech. In January 2006 our Chairman, Fu Zhiguo, transferred the remaining capital stock of ZQ Power Tech to Cashtech Investment Limited, so that it now owns 100% of ZQ Power-Tech.

ZQ Power-Tech

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

The Harbin Institute of Technology is one of the leading technological institutions in Asia. Two of its engineering professors now serve on ZQ Power-Tech s Scientific Advisory Board, along with a professor of engineering at the

China Engineering Academy. This close association with the Harbin Institute of Technology provides ZQ Power-Tech with a rich source of technological talent, such that ZQ Power-Tech s research staff is filled by experienced engineers, many with masters and Ph.D degrees.

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

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

At the present time, ZQ Power-Tech produces only one finished product. This is a cordless miner s lamp equipped with a rechargeable PLI battery. ZQ Power-Tech has sold its miner s lamps to an agency of the Chinese government for several years, but recently expanded its market to private industry. In 2006 ZQ Power-Tech received an order from a Hong Kong-based mining company for 450,000 battery cells for mine lamps, to be delivered over a three year period. As a result of the expanded marketing, ZQ Power-Tech has installed a production line dedicated to mine lamps, which has a production capacity of 100,000 lamps per year.

All of ZQ Power-Tech s other sales and pending contracts are for battery cells, which are sold on an OEM basis as a component of a finished product. Among ZQ Power-Tech s current customers are companies that use our batteries in cell phones, companies that use them in laptop computers, and a company that uses our batteries in its digital cameras. One unique market for ZQ Power-Tech s batteries opened when, in August 2007, they were successfully tested by oceanographers in deep sea drilling equipment utilized by the China National Oceanographic Institute.

Vehicle Batteries

Three years ago ZQ Power-Tech produced an automobile battery under a contract from the government of Harbin. This rechargeable PLI battery weighs approximately 500 pounds, and is designed for commuter vehicles. It permits a top speed of 75 mph, and a traveling distance of 200 miles per charge. The battery discharges 5% of its energy per hour, when not in use, so daily recharging is necessary. The battery can be recharged in 3 to 4 hours.

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

The development of ZQ Power-Tech s vehicle battery technologies has opened the door for a variety of relationships, with the result that ZQ Power-tech is gradually developing a significant presence in the growing market for vehicle batteries. The initial success of this venture was marked, in the summer of 2004, by a $21 million order to supply 3.7 volt PLI battery sets for electric cars manufactured by Aiyingsi Company of Taiwan. Aiyingsi and ZQ Power-Tech cooperated on development for two years, until in January 2006 Aiyingsi completed initial testing of ZQ Power-Tech batteries in thirty electric bicycles and motorcycles, and announced that it was satisfied with the results. Initial shipments under the order were made during 2006 and have continued to date.

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

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

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

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

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

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In March 2008 ZQ Power-Tech announced that it had collaborated with Wuxi Angell on the development of an electric hybrid motorcycle that utilizes ZQ Power-Tech batteries. The hybrid motorcycle is expected to be distributed in Europe in 2008, having already received the necessary CE markings. Wuxi Angell has also signed letters of intent with dealers in the United States.

Backlog

ZQ Power Tech s backlog of sales orders totaled approximately $49,169,000 on March 26, 2008. On April 11, 2007 our backlog of orders totaled approximately $18,000,000.

Marketing

Initially, ZQ Power-Tech focused its marketing activities in southeast Asia, primarily China, Taiwan and Japan. Within the past two years, however, we have expanded our market to include Europe and the United States. The majority of our sales continue to be made directly by our marketing department. However we have also established relationships with sales representatives in most of our major markets. Our plan is to significantly expand our market presence now that our facilities have reached an operating level sufficient to service a much higher level of sales.

Environmental Regulation

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

Intellectual Property

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

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A cellular phone battery pole plate.

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A polymer lithium-ion battery and its production method.

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A large capacity polymer lithium-ion battery and its production method.

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An ultra-thin polymer lithium-ion battery for a miner s lamp and its production method.

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A walkie-talkie lithium-ion battery and its production method.

-

A mobile phone battery and its production method.

-

a nano material lithium ion battery and its production process.

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

During 2003 ZQ Power Tech spent $493,114 on research and development as it completed the formulae for its polymer lithium-ion batteries. From 2004 through 2006, however, our resources were focused toward implementing the assembly lines needed to introduce our products to the market on a mass scale. Research and development expenditures in those three years were only $393,727 in total. With the build-out of our initial facility completed, our cash and management personnel can again be focused on research, specifically, the development of a second-generation product line and the utilization of nanomaterials in our batteries. During 2007, therefore, our research and development expenses grew to $383,871.

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

Employees

Advanced Battery Technologies has 4 employees, all of whom are involved in administration in our New York office. ZQ Power-Tech has 1258 employees. 31 are involved in administration, 45 are involved in marketing, and 42 are involved in research and development and related technology services. The remainder is employed in production capacities. None of our employees belongs to a collective bargaining unit.

Item 2. Properties

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

During 2004 ZQ Power-Tech commenced an ongoing program of expanding its production facility. It has completed Building A and Building B, 30,000 square feet of manufacturing capacity, which now have a production capacity of approximately $40,000,000 per year, depending on the specific products being produced. Due to the rapid increase in the Company s sales, Management intends to develop additional assembly lines in Building C and Building D, as soon as the funds necessary for the development can be obtained.

In November 2003 ZQ Power-Tech received ISO9001 certification pertaining to Manufacturing and Quality Control Approval.

Item 3.

Legal Proceedings

None.

Item 4.

Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5.

Market for Registrant s Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

(a) Market Information

Since February 26, 2008, the Company s common stock has been listed on the NASDAQ Capital Market under the symbol ABAT. From October 9, 2007 until February 26, 2008 the common stock was listed on The American Stock Exchange. Prior to listing on The American Stock Exchange, the Company s common stock was quoted on the OTC Bulletin Board.

Set forth below are the high and low bid prices for each of the eight quarters in the past two fiscal years. During the period when the common stock was quoted on the OTC Bulletin Board, the reported bid quotations reflect inter-dealer prices without retail markup, markdown or commissions, and may not necessarily represent actual transactions.

	Bid	
Quarter Ending	High	Low
March 31, 2006	$ .90	$ .41
June 30, 2006	$ 1.14	$ .55
September 30, 2006	$ .90	$ .62
December 31, 2006	$ .75	$ .56
March 31, 2007	$ 2.03	$ .60
June 30, 2007	$ 3.13	$ 1.21
September 30, 2007	$ 5.98	$ 2.51
December 31, 2007	$ 9.45	$ 3.17

(b) Shareholders

Our shareholders list contains the names of 396 registered stockholders of record of the Company s Common Stock.

(c) Dividends

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

Advanced Battery did not effect any unregistered sales of equity securities during the 4th quarter of 2007

(e) Repurchase of Equity Securities

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Act during the 4th quarter of 2007

Item 6

Management s Discussion and Analysis

Results of Operations

Near the end of 2004, ZQ Power-Tech obtained the financing needed to complete additional factory facilities at ZQ Power-Tech s campus in Heilongjiang. Production was reduced to minimal or none, as management focused on doubling the Company s production capacity and training the necessary personnel. Between 2004 and the end of 2005, the number of employees at our facility increased from 300 to, currently, 1258, as we more than doubled our production capacity to its current level of $40 million per year. We now have two buildings (A and B) in full production. As our revenues in 2007 reached $31 million and continue to grow, our plan is to outfit buildings C and D so as to double our production capacity. Toward that end, our management has been engaged in discussions with potential sources of the capital necessary for the expansion.

In the fall of 2005 we returned to full production, shipping $4,222,960 of product in that year. Our growth continued through 2006 and 2007, as we recorded $16,329,340 in revenue for 2006 and $31,897,618 in revenue for 2007. Since we currently have a backlog of approximately $49,169,000, we expect to expand on the level of operations that we achieved during 2007.

ZQ Power-Tech realized a 43% gross margin on its sales in 2007, as contrasted with a 55% gross margin on sales in 2006. In general, our gross margin ratio depends considerably upon which of ZQ Power-Tech s products are dominating sales. During 2007 a larger portion of our sales involved vehicle batteries, which have a lower gross margin than batteries for electronic batteries. We expect our future operations to yield gross margins within the range defined by 2006 2007 operations.

Our selling, general and administrative expense increased from 2006 to 2007 at a rate somewhat in excess of the increase in our revenues. While our revenues increased by 95% from 2006 to 2007, our selling, general and administrative expenses increased by 131%, from $1,423,621 to $3,283,230. One factor that swelled the increase was the expense attributable to the Company s listing on the American Stock Exchange during 2007, including legal and consulting expenses and listing fees. In addition, considerable effort and expense was expended in connection with the Company s as-yet unfulfilled efforts to obtain the financing necessary to implement production in our Building C and Building C. We expect that for the immediate future, the increase in our selling, general and administrative expense will be roughly proportional to the increase in our revenues.

Included in our general and administrative expense in 2007 was $939,338 attributable to amortization of the market value of stock that we granted to employees or consultants, primarily during 2004. This non-cash expense resulted from our use of stock during our early years to incentivize key individuals. At December 31, 2007 there remained $6,939,377 in unamortized stock compensation on the Company s books. This sum will be amortized over the expected duration of the employment or service of the recipients of the shares.

In January 2006 the Company acquired the minority interest in its subsidiary, ZQ Power-Tech, resulting in 100% ownership. At that time it recorded $2,050,204 as goodwill, representing the excess of the purchase price it paid over the fair value of the assets associated with the minority interest. At the end of 2006, management determined that the goodwill was impaired and took a write-off in that amount. Recently, however, management revisited that decision, and concluded that its decision to write-off the goodwill had not conformed to generally accepted accounting standards. For that reason, the Company s balance sheet and statement of operations for the year ended December 31, 2006 have been restated in this Report to reflect the reversal of the impairment charge. The primary result of the restatement has been to increase both total assets at December 31, 2006 and net income for 2006 by $2,050,204.

The Company s revenue less expenses produced a pre-tax income of $10,205,406 in 2007, compared to a net income of $7,133,390 in 2006. As a result of Chinese tax laws that reward foreign investment in China, ZQ Power-Tech was entitled to exemption for income taxes during 2006 and 2007, followed by a 50% abatement from 2008 to 2010. Our net income for 2007, therefore, was identical to our pre-tax income, representing $0.22 per share. On the other hand, our net income for 2006 was increased, when the Government of China refunded to us $907,362 that we had paid in excess of our tax liability for prior years. With that addition, our net income for 2006 came to $5,990,548, or $.13 per share.

Our business operates primarily in Chinese Renminbi, but we report our results in our SEC filings in U.S. Dollars. The conversion of our accounts from RMB to Dollars results in translation adjustments. While our net income is added to the retained earnings on our balance sheet; the translation adjustments are added to a line item on our balance sheet labeled accumulated other comprehensive income, since it is more reflective of changes in the relative values of U.S. and Chinese currencies than of the success of our business. During 2007, the effect of converting our financial results to Dollars was to add $2,125,410 to our accumulated other comprehensive income.

Liquidity and Capital Resources

Until December 2004, the development and initial operations of ZQ Power-Tech were financed primarily by contributions to capital made by Zhiguo Fu, the Company s Chairman. On December 1, 2004, ZQ Power-Tech entered into a Loan Agreement with China Financial Bank, and received a loan of 20 million RMB (approximately $2.4 million). The Loan Agreement, as amended, required that the principal be paid in a balloon in November 2007. During 2006, however, we repaid the loan. Our debt is now limited to a $411,263 note payable to the Finance Bureau of the City of Shuangcheng and a $735,700 liability to our Chairman for funds he has deposited into our accounts.

Our Chairman, Zhiguo Fu, deposited that sum, despite our cash balance of $2,704,823 at the end of 2007, in anticipation of the cash we will require in order to expand our production capabilities. Our revenue in 2007 reached a level equal to approximately 77% of the annual production capacity of our manufacturing plant. With a current backlog of firm orders exceeding $49 million, the need for expansion is obvious. Of the four factory buildings on our campus in the City of Harbin, two (Building C and Building D) remain unused. Our plan is the utilize our available capital resources to fund the purchase of inventory and other working capital requirements of an expansion, while obtaining additional capital for equipment through the sale of equity. To date, however, we have received no commitment for the necessary capital.

At December 31, 2007 ZQ Power-Tech had a working capital balance of $19,749,375, an improvement of $12,761,891from the working capital balance at December 31, 2006. The primary reason for the improvement in working capital was the net income realized from 2007 operations. It should be noted, however, that of the $19 million in working capital, $16 million is represented by accounts receivable an amount equal to more than half the amount of our 2007 revenues.

Although we realized $10,205,406 in net income during 2007, our operations generated only $638,881 in cash during that same period. The primary reason for the disparity between net income and cash flow was the increase of our accounts receivable by $11,079,633 during this period. The relatively large increase in our accounts receivable is attributable, in part, to the rapid growth of our sales. In addition, as we strive to capture a position in the battery market, we often permit new customers to delay payment of invoiced amounts, a practice that is in keeping with business practices commonly accepted in China. These concessions are usually indefinite and informal and, legally, we can demand payment at any time. We permit the delay in order to develop goodwill with the customer. Because the concessions are based on Chinese business custom, we do not consider them to be unnecessarily risky. In fact, we have experienced no significant events of default by our customers. The effect of the practice on our cash flow, however, has been to reduce our liquidity at the expense of sales growth. The resulting disparity between income and cash is the reason that our Chairman contributed $735,700 of his own funds to assure that we will have sufficient liquidity to serve our backlog in the coming months.

ZQ Power-Tech has sufficient liquidity to fund its near-term operations and to fund the working capital demands of an expansion of its operations. If our efforts to obtain equity-based financing for our production expansion are unavailing, we have available $13,243,236 in property, plant and equipment, which ZQ Power-Tech owns free of liens. Based on the substantial backlog of orders that ZQ Power-Tech has accumulated, it believes that secured financing will be available to it on favorable terms if needed

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

Application of Critical Accounting Policies

In preparing our financial statements we are required to formulate working policies regarding valuation of our assets and liabilities and to develop estimates of those values. In our preparation of the financial statements for 2007, there were two estimates made which were (a) subject to a high degree of uncertainty and (b) material to our results. The first was our determination, detailed in Note 12 to the Financial Statements, that we had no need of a reserve for warranty costs. The primary reason for the determination was the fact that we have received no warranty claims to date. The second was our determination, detailed in Note 10 to the Financial Statements, to amortize the stock compensation that we gave to our employees in 2005 and 2006 over an average of 18.5 years. The determination was based on the senior status of the employees, and our expectation that they will remain employed by ZQ Power-Tech for at least that period.

We made no material changes to our critical accounting policies in connection with the preparation of financial statements for 2007.

Impact of Accounting Pronouncements

There were no recent accounting pronouncements that have had a material effect on the Company s financial position or results of operations. There was one recent accounting pronouncement that may have a material effect on the Company s financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R Share-Based Payment. This Standard addresses the accounting for transactions in which a company receives employee services in exchange for (a) equity instruments of the company or (b) liabilities that are based on the fair value of the company s equity instruments or that may be settled by the issuance of such equity instruments. This Standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and requires that such transactions be accounted for using a fair-value-based method. The Standard is effective for periods beginning after June 15, 2005. The Standard may adversely affect the Company s results of operations if the Company issues a material amount of capital stock for services, as it did during the past three years.

Off-Balance Sheet Arrangements

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

Risk Factors That May Affect Future Results

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

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

We have only one product line, rechargeable polymer lithium-ion batteries. We began marketing our batteries in the Spring of 2004, and only began to report substantial revenue at the end of 2005. There are many companies, large and small, involved in the market for rechargeable batteries. Some of our existing and potential competitors have longer operating histories and significantly greater financial, technical, marketing and other resources. It will be difficult for us to establish a reputation in the market so that manufacturers chose to use our batteries rather than those of our competitors. Unless we are able to expand our sales volume significantly, we will not be able to operate efficiently and our business will fail.

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

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

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

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

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

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

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

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

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

We have limited business insurance coverage.

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

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

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

Currency fluctuations may adversely affect our business.

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

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

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

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

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

interest expense for us.

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

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

•

a limited availability of market quotations for our common stock;

•

a limited amount of news and analyst coverage for our company; and

•

a decreased ability to issue additional securities or obtain additional financing in the future.

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

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

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

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

All of our assets are located in China and changes in the political and economic policies of the PRC government could have a significant impact upon what business we may be able to

conduct in the PRC and accordingly on the results of our operations and financial condition.

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

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

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

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

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

New corporate income tax laws could adversely affect our business, financial condition and results of operations.

Under the Income Tax Laws of the PRC, ZQ Power-Tech is generally subject to an income tax at effective rate of 33% (30% state income taxes plus 3% local income taxes) on income reported in the statutory financial statements after appropriated tax adjustments. However, ZQ Power-Tech is located in a specially designated technology zone which affords foreign-invested enterprises a two-year income tax holiday. ZQ Power-Tech enjoyed a tax exemption through December 31, 2007, and will enjoy an additional 50% income tax reduction from January 1, 2008 to December 31, 2010.

On March 16, 2007, National People's Congress passed a new corporate income tax law, which will be effective on January 1, 2008. This new corporate income tax unifies the corporate income tax rate, cost deductions and tax incentive policies for both domestic and foreign-invested enterprises in China. According to the new corporate income tax law, the applicable corporate income tax rate of our Chinese subsidiaries will incrementally decrease to 25% over a five-year period. We are expecting that the rules for implementation would be enacted by the Chinese government in the coming months. After the rules are enacted, we can better assess what the impact of the new unified tax law would be over this period. The discontinuation of any special or preferential tax treatment or other incentives may adversely affect our business, financial condition and results of operations.

We rely principally on dividends and other distributions on equity paid by our operating subsidiary to fund our cash and financing requirements, but such dividends and other distributions are subject to restrictions under PRC law. Limitations on the ability of our operating subsidiary to pay dividends or other distributions to us could have a material adverse effect on our ability to grow, make investments or acquisitions, pay dividends to you, and otherwise fund and conduct our business.

We are a holding company and conduct substantially all of our business through our operating subsidiary, ZQ Power-Tech, which is a limited liability company established in China. We rely on dividends paid by ZQ Power-Tech for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities organized in China is subject to ZQ Power-Tech to us only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. ZQ Power-Tech is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. In addition, ZQ Power-Tech is required to allocate a portion of its after-tax profit to its enterprise expansion fund and the staff welfare and bonus fund at the discretion of its board of directors. Moreover, if ZQ Power-Tech incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of ZQ Power-Tech Q to pay dividends or other distributions to us could have a material adverse effect on our ability to grow, make investments or acquisitions, pay dividends to you, and otherwise fund or conduct our business.

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

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

Item 7. Financial Statements

The Company s financial statements, together with notes and the Independent Auditors Report, are set forth immediately following Item 14 of this Form 10-KSB.

Item 8.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable

Item 8A. Controls and Procedures

(a)

Evaluation of disclosure controls and procedures.

The term disclosure controls and procedures (defined in SEC Rule 13a-15(e)) refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within required time periods. The Company s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this annual report (the Evaluation Date). Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such controls and procedures were effective.

(b)

Changes in internal controls.

The term internal control over financial reporting (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated any changes in the Company s internal control over financial reporting that occurred during the fourth quarter of the year covered by this annual report, and they have concluded that there was no change to the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

(c)

Management s Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. We have assessed the effectiveness of those internal controls as of December 31, 2007, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Intergrated Framework as a basis for our assessment.

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

A material weakness in internal controls is a deficiency in internal control, or combination of control deficiencies, that adversely affects the Company s ability to initiate, authorize, record, process, or report external financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a material misstatement of the Company s annual or interim financial statements that is more than inconsequential will not be prevented or detected. In the course of making our assessment of the effectiveness of internal controls over financial reporting, we identified three material weaknesses in our internal control over financial reporting. These material weaknesses consisted of:

a.

Inadequate staffing and supervision within the accounting operations of our company. The relatively small number of employees who are responsible for accounting functions prevents us from segregating duties within our internal control system. The inadequate segregation of duties is a weakness because it could lead to the untimely identification and resolution of accounting and disclosure matters or could lead to a failure to perform timely and effective reviews.

b.

Lack of expertise in U.S accounting principles among the personnel in our Chinese headquarters. Our books are maintained at our executive offices in the City of Harbin, then translated into English and adjusted to reflect U.S accounting principles at our executive offices in New York City. The lack of personnel in our Harbin office who are trained in U.S. accounting principles is a weakness because it could lead to improper classification of items and other failures to make the entries and adjustments necessary to comply with U.S. GAAP.

c.

Lack of an adequate system for reflecting in our Chinese-based books and records the accounting adjustments made in our New York office. From time to time it has occurred that adjusting journal entries made by the personnel in our New York office in connection with our end-of period accounting have not been properly reflected in the books and records maintained in our Harbin office. The lack of an adequate system to assure that these adjustments are reflected throughout our books and records is a weakness because it could lead to erroneous entries in subsequent financial statements.

Management is currently reviewing its staffing and systems in order to remedy the weaknesses identified in this assessment. However, because of the above condition, management s assessment is that the Company s internal controls over financial reporting were not effective as of December 31, 2007.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this annual report.

Item 8B. Other Information

None.

PART III

Item 9.

Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act.

The officers and directors of the Company are:

Name	*Age*	*Position with the Company*	*Director Since*
Zhiguo Fu	58	Chairman, Chief Executive Officer	2004
Sharon Tang	49	Chief Financial Officer	--
Guohua Wan	55	Director	2004

Guopeng Gao	35	Director	2005
Hongjun Si	32	Director	2005
Liqui Bai	38	Director	2005
John McFadden	64	Director	2007
Yulin Hao	63	Director	2007
Ning Li	54	Director	2007
Shaoqiu Xia	61	Director	2007
Shiyan Yang	45	Director	2007
Cosimo J. Patti	58	Director	2007

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

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

Sharon Xiaorong Tang. Ms. Tang has been employed as Chief Financial Officer since 2007. From 2006 to 2007 Mr. Tang was employed as Managing Director of First Federal Group of Companies, Inc. in New York City, where she managed investment banking and financial transactions for client companies. For three months prior to that engagement, Ms. Tang was employed as Vice President by Crucible Capital Group, Inc. From 1998 until 2006, Ms. Tang was employed as a Financial Advisor by Smith Barney, Citigroup in New York City. Ms. Tang was awarded an M.B.A. by the Zicklin School of Business at Baruch College in 2005. In 1988 Ms. Tang was awarded a M.S. degree in Chemical Engineering by the University of Rochester. In 1982 Ms. Tang was awarded a B.S. degree with a concentration in Chemistry by the Peking University in Beijing, China.

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

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

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

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

John J. McFadden. Since 1998 Mr. McFadden has been self-employed as a consultant, providing consultation to his clients regarding both investment banking and energy matters. From 1996 until 1998 Mr. McFadden was employed as the Senior Managing Director of Cambridge Holding and Cambridge Partners, LLC, a private investment company. From 1968 until 1996 Mr. McFadden was employed by The First Boston Corporation with a variety of responsibilities in corporate finance and public finance, including service as Vice President and Treasurer. In 1967 Mr. McFadden was awarded a B.A. degree by St. Bonaventure University.

Yulin Hao. Since 2002 Mr. Hao has been employed as Vice General Manager by the Heilongjiang Jinli Accounting Firm, a firm of accountants in China s Heilongjiang province.

Form 1998 to 2002 Mr. Hao was employed by the East Asian Energy Transportation Company as General Manager, with responsibilities for capital management. From 1994 until 1997 Mr. Hao was employed as Vice President by the Guotai Securities Corporation. In 1964 Mr. Hao was awarded a Certificate in finance by the Heilongjiang Finance College.

Ning Li. Since 1990 Doctor Li has been employed as a Professor by the Harbin Industrial University, where she engages in teaching and research. In 1990 she was awarded a Doctoral Degree in Science by the Harbin Industrial University.

Shaoqiu Xia. Since 1993 Mr. Xia has been employed as Deputy Secretary in the Government of the City of Harbin, China. During the eight years immediately preceding his entry into government service, Mr. Xia was employed as President of Harbin Electrical and Mechanical Production Company. Mr. Xia was awarded a Bachelors Degree in Science in 1967 by the Shenyang Industrial University.

Shiyan Yang. Since 1998 Doctor Yang has been employed as a Professor by the Harbin Industrial University, where he engages in teaching and research. In 1998 he was awarded a Doctoral Degree in Science by the Harbin Industrial University.

Cosimo J. Patti. Mr. Patti has over 35 years of managerial experience in the financial services industry. Since 1999 Mr. Patti has been employed as President of Technology Integration Group, Inc. d/b/a FSI Advisors Group. FSI Advisors Group is an international consortium of financial services boutiques. Mr. Patti has been responsible for procuring business opportunities for the member firms. During the period from 2002 to 2004 Mr. Patti was also employed by iCi/ADP as Senior Director Applications Planning, with responsibility for managing the applications planning area of the fixed income software subsidiary of ADP. Mr. Patti serves as an Industry Arbitrator for both the NASD and the New York Stock Exchange.

Audit Committee; Compensation Committee; Nominating Committee

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

The Audit Committee consists of John J. McFadden, Cosimo J. Patti and Yulin Hao. Mr. McFadden serves as the chairman of the Audit Committee. The Board has determined that each of the members of the Audit Committee satisfies the independence requirements of the NASDAQ Stock Market. The Audit Committee oversees our accounting and financial reporting processes and procedures, reviews the scope and procedures of the internal audit function, appoints our independent registered public accounting firm and is responsible for the oversight of its work and the review of the results of its independent audits. The Audit Committee was constituted in the latter part of 2007 and did not meet during that year.

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

The Compensation Committee consists of Cosimo J. Patti, John J. McFadden and Shaoqiu Xia. Mr. Patti serves as chairman of the Compensation Committee. The Board has determined that each of the members of the Compensation Committee satisfies the independence requirements of the NASDAQ Stock Market. The Compensation Committee oversees the Company s policies regarding compensation and benefits, evaluates the performance of the Company s executive officers, reviews and approves the compensation of the Company s executive officers, and sets the compensation for members of the Board of Directors. The Compensation Committee was constituted in the latter part of 2007 and did not meet during the year.

The Nominating and Corporate Governance Committee consists of Yulin Hao, Shiyan Yang and Ning Li. Mr. Hao serves as chairman of the Nominating and Corporate Governance Committee. The Board has determined that each of the members of the Nominating and Corporate Governance Committee satisfies the independence requirements of the NASDAQ Stock Market. The Nominating and Corporate Governance Committee makes recommendations to the Board regarding nominees to be submitted to our shareholders for election at each annual meeting of shareholders, selects candidates for consideration by the full Board to fill any vacancies on the Board, and oversees all of our corporate governance matters. The Nominating and Corporate Governance Committee was constituted in the latter part of 2007 and did not meet during the year.

Procedure for Nominating or Recommending for Nomination Candidates for Director

The Nominating and Corporate Governance Committee will consider sound and meritorious suggestions for directors from the shareholders. Any shareholder may submit a nomination for director by delivering a letter of recommendation to the Corporate Secretary at our executive offices in New York City. The letter of recommendation must be received no less than 25 days prior to the date on which we mail notice of our annual meeting to the shareholders. All letters of recommendation that meet the requirements set forth below will be considered by the Nominating and Corporate Governance Committee, using the same procedures and criteria as it applies to candidates proposed by members of the Board. In order to be considered, a letter of recommendation must include (a) the name, address and number of shares owned by the nominating shareholder, (b) the nominee s name and address, (c) a listing of the nominee s background and qualifications, (d) a description of all arrangements between such shareholder and any other shareholder and each nominee, and (e) all other information relating to such person that is required to be disclosed in the solicitations for proxies for election of directors under applicable SEC and NASDAQ rules. A signed statement from the nominee should accompany the letter of recommendation indicating that he or she consents to being considered as a nominee and that, if nominated by the Board and elected by the shareholders, he or she will serve as a director.

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Code of Ethics

The Board of Directors has adopted the Advanced Battery Technologies, Inc. Employee Code of Business Conduct and Ethics. The Code is applicable to all employees of Advanced Battery Technologies, including its principal executive officer, principal financial officer and principal accounting officer. The Code has been filed as an exhibit to this Report.

Section 16(a) Beneficial Ownership Reporting Compliance

None of the officers, directors or beneficial owners of more than 10% of the Company s common stock failed to file on a timely basis the reports required by Section 16(a) of the Exchange Act during the year ended December 31, 2007, except that neither the Chief Financial Officer nor any member of the Board of Directors other than Zhiguo Fu have filed Initial Statements on Form 3.

Item 10. Executive Compensation

The following table sets forth all compensation awarded to, earned by, or paid by Advanced Battery Technologies and its subsidiaries to Zhiguo Fu, its Chief Executive Officer, for services rendered in all capacities to the Company during the years ended December 31, 2007, 2006 and 2005. There were no other executive officers whose total salary and bonus for the fiscal year ended December 31, 2007 exceeded $100,000.

				Stock	*Option*	*Other*
	Year	*Salary*	*Bonus*	*Awards*	*Awards*	*Compensation*
Zhiguo Fu	2007	$77,500	--	--	--	--
	2006	$77,500	--	--	--	--
	2005	$77,500	--	--	--	--

Employment Agreements

On April 22, 2007 Advanced Battery entered into an Employment Agreement dated as of April 3, 2007 with Sharon Xiaorong Tang, its Chief Financial Officer. The agreement provides that Ms. Tang will be employed as Chief Financial Officer from April 3, 2007 to April 1, 2012. During the term of the agreement, Advanced Battery will pay Ms. Tang an annual salary of $60,000. At the beginning of each year of employment, Advanced Battery will issue 20,000 shares of common stock to Ms. Tang.

All of the other executive officers of the Company are employed on an at-will basis.

Equity Grants

The following tables set forth certain information regarding the stock options acquired by the Company s Chief Executive Officer during the year ended December 31, 2007 and those options held by him on December 31, 2007.