

Advanced Battery Technologies, Inc.

In this report, we present compelling evidence that Advanced Battery Technologies, Inc. ("ABAT" or the "Company") is fabricating its SEC financial statements. We believe that the Company's revenue and profit are highly overstated in its SEC filings. We have created a video where we discuss our findings: Part 1 is [here](#) and Part 2 is [here](#). Our evidence includes:

- SAIC filings show that ABAT is reporting significantly lower revenue and profit to the authorities in China. For 2009, SAIC filings showed less than \$2 million of revenue, compared to \$64 million in SEC filings.
- ABAT has unreasonably high margins in an established industry with strong competitors. The Company's SEC-reported margins and return on capital are virtually impossible. Out of 106 global battery manufacturers as classified by Bloomberg, ABAT has the highest operating profit margin by a wide margin. When compared to six leading Chinese battery makers, ABAT's operating margin is triple that of its closest competitor and six times that of the median operating margin of the comparable companies.
- Site visits show underutilized facilities lacking in quality control. We hired investigators to visit both the Harbin and Wuxi facilities, and provide photos as well as commentary from our investigators. Our investigators concluded that both facilities produce commodity, low-margin products that are highly unlikely to be generating industry-leading margins or return on capital.
- In December 2010, ABAT announced that it was acquiring a Shenzhen battery maker for \$20 million. We believe this acquisition is a sham, and that ABAT paid \$20 million in 2010 for an entity that they had previously bought in 2008 for \$1 million, but had not disclosed to public investors.
- Confirmation from former customers and partners that the Company is likely a fraud. After visiting one of ABAT's plants, one customer called the facility "absolutely the biggest joke I'd ever seen". A recording of the conversation is available [here](#). In another conversation available [here](#) and [here](#), a customer said the CEO admitted to hiring an accounting firm "to cook his stock price up".
- Low quality auditors and high turnover. The Company has had 4 auditors in the past 7 years, with no auditor being ranked in the top global 100 auditors at the time of hire.
- Unqualified CFOs and high turnover. A CFO or auditor has resigned at least once a year. The Company's past three CFOs have included: (i) a company insider who has been general manager of the Company's main operating subsidiary since 2004, and is therefore not remotely independent, (ii) a 29-year-old who was formerly VP Finance at China Natural Gas, another fraud, and (iii) a candidate whose primary experience comprised of being a financial adviser at Smith Barney.
- Continuous share dilution through secondary offerings, despite having more than adequate cash reserves. Through repeated share issuances, the Company has grown its outstanding shares from 10.0 million following the 2004 reverse merger to 76.4 million today.



Our estimated fundamental value for ABAT is \$0.00

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Introduction

Advanced Battery Technologies, Inc. is yet another fraudulent U.S-listed Chinese stock that the Securities and Exchange Commission can add to its list of targets for investigation. We believe that the Company's actual revenue is materially less than the revenue reported to the SEC, and that the underlying operations are not profitable. Given that ABAT's SEC filings are fabricated, we're not sure exactly how small the actual business is. We are confident, however, that ABAT should be investigated by the Securities and Exchange Commission for filing falsified financial statements.

Since the Company is engaging in fraud and likely has no intention of providing a meaningful return to public foreign shareholders, we think that the stock is fundamentally worth \$0.00. ABAT should be de-listed from the NASDAQ stock exchange.

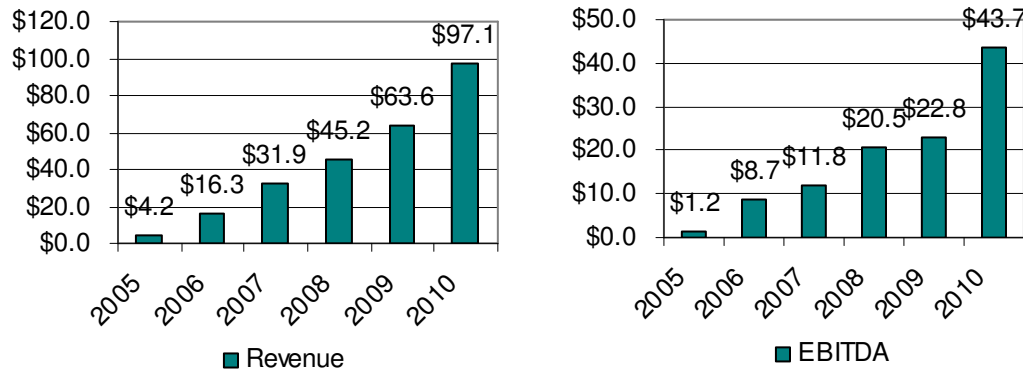
The Company

ABAT's main operating business is the manufacturing and sale of polymer lithium-ion batteries. In 2009, the Company also acquired a business that makes and sells electric and hybrid-powered motorbikes, scooters and SUVs. In the year ended December 31, 2010, batteries comprised 55% of sales and electric vehicles comprised 45% of sales.

The Company went public in July 2004 through a reverse merger. ABAT controls two main operating subsidiaries: Heilongjiang ZhongQiang Power-Tech Co., Ltd. ("Heilongjiang ZQPT") and Wuxi ZhongQiang Autocycle Co., Ltd. ("Wuxi ZQ"). Heilongjiang ZQPT operates the battery business; it was set up in 2002 and its manufacturing facilities first became operational in 2004. Wuxi ZQ operates the motorbikes/scooters business and was purchased by ABAT in May 2009.



Below is the company's historical revenue and EBITDA according to SEC filings:



We will provide evidence that the charts above are fiction.

SAIC Filings

Businesses that operate in China file their financial statements with the [State Administration for Industry and Commerce](#). These statements are an excellent place to start piecing together the truth. Non-fraudulent Chinese companies submit financial statements to the SAIC that resemble those published in the US. ABAT's filings in China indicate that ABAT is earning a tiny fraction of the revenue reported to the SEC and generating millions of dollars of losses rather than profits.

ABAT's corporate structure is simple. Advanced Battery Technologies, Inc. owns Cashtech Investment Limited, which owns two key subsidiaries.

The first is Harbin ZhongQiang Power-Tech Co., Ltd. ("Harbin ZQPT"), which "holds the government lease of the real property on which [the] battery operations are located". Harbin ZQPT manages Heilongjiang ZhongQiang Power-Tech Co., Ltd. (Heilongjiang ZQPT), which is the actual operating subsidiary. For our purposes, we are interested in the SAIC filings of Heilongjiang ZQPT. Note that we have also checked the SAIC financials of Harbin ZQPT and the entity generates negligible revenue.

The second subsidiary owned by Cashtech is Wuxi ZhongQiang Autocycle Co., Ltd. ("Wuxi ZQ"), which was acquired in 2009 and manufactures electric vehicles powered by ZQ Power-Tech batteries. Prior to being acquired, this company was called Wuxi Angell Autocycle Co., Ltd.

Below are links to SAIC filings for Heilongjiang ZQPT and Wuxi ZQ, in both original Chinese and English translations. Harbin ZQPT filings and translations are also available on request:

[Heilongjiang ZQPT 2008 and 2009 SAIC Filings in Chinese](#)
[Heilongjiang ZQPT 2008 and 2009 SAIC Filings in English Translation](#)

[Heilongjiang ZQPT 2007 SAIC Filings in Chinese](#)
[Heilongjiang ZQPT 2007 SAIC Filings in English Translation](#)

[Heilongjiang ZQPT 2006 SAIC Filings in Chinese](#)
[Heilongjiang ZQPT 2006 SAIC Filings in English Translation](#)

[Wuxi ZQ 2009 SAIC Filings in Chinese](#)
[Wuxi ZQ 2009 SAIC Filings in English Translation](#)

In the cases of both Heilongjiang ZQPT and Wuxi ZQ, the SAIC filings tell a very different story than the SEC filings.

Below is a summary of ABAT's 2009 SAIC filings:

| SAIC Filings for 2009 | | | |
|-------------------------------------|--------------------|--------------------|--------------------------|
| <i>Units are in CNY (thousands)</i> | | | |
| | Wuxi Angell | Harbin ZQPT | Heilongjiang ZQPT |
| Revenue | 4,790 | - | 8,136 |
| Gross Profit | (600) | - | (6,244) |
| Net Income | (12,670) | (307) | (14,351) |
| Total Assets | 199,960 | 139,344 | 116,010 |
| Shareholder Equity | 72,990 | 98,787 | 50,079 |

Below is a comparison of ABAT's SEC and SAIC financial figures:

| A Comparison of SEC and Consolidated SAIC Filings for 2009 | | | |
|---|------------|---------|-------------|
| <i>Units are in \$ (millions)</i> <i>and assume an average conversion rate of 6.83 CNY/USD</i> | | | |
| | SEC | | SAIC |
| Revenue | \$ | 63.562 | \$ 1.893 |
| Gross Profit | \$ | 28.392 | \$ (1.002) |
| Net Income | \$ | 21.360 | \$ (4.001) |
| Total Assets | \$ | 157.826 | \$ 66.664 |
| Shareholder Equity | \$ | 131.932 | \$ 32.483 |

In 2009, Heilongjiang ZQPT generated revenue of \$1.2 million and a loss of \$2.1 million, assuming average conversion rates of 6.83 CNY/USD. In 2008, Heilongjiang ZQPT generated revenue of \$934k and a loss of \$825k, assuming an average conversion rate of 6.95.

In 2009, Wuxi ZQ generated revenue of \$702k in 2009 and a loss of \$1.9 million, assuming average conversion rates of 6.83 CNY/USD. In 2008, Wuxi ZQ generated revenue of \$934k and a loss of \$2.7m. It is possible that the lower revenue and losses reported in 2009 at Wuxi ZQ are a result of the acquisition midway through the year. But readers should understand that the SAIC filings indicate business performance as of December 31, 2009. Interestingly, the SAIC numbers are in a similar magnitude to losses reported by ABAT management in the Risk Factor section of the 2009 annual report:

Wuxi ZQ recorded substantial net losses in each of its past two fiscal years: a net loss of \$3,727,136 in the year ended December 31, 2008 and a net loss of \$1,150,719 in the year ended December 31, 2007. In 2009, even after we took control of management, Wuxi ZQ continued to lose money, finishing 2009 with a net loss of \$1,392,821.



In the case of a consolidated ABAT, the SAIC filings show much lower sales and profit than the SEC filings. It's obvious that the numbers above aren't simply accounting irregularities or rounding errors. Throughout the remainder of this report, we will demonstrate that the discrepancies indicate deliberate deceit by management.

Impossible Economics

Selling a commodity product into a competitive market with no technological advantage is difficult. It's especially difficult for a small business without economies of scale, limited customer relationships, and no distinguished brand name. But ABAT purports to be not just surviving, but thriving with industry-leading margins and an ROIC that warrants explanation.

A company with an EBITDA margin of 45% in 2010 must have some uniquely special competitive advantage. Yet ABAT itself recognizes that it has no special technology for its main products. The following is taken from its annual report:

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.

In choosing a set of comparable companies for ABAT, we'll use companies listed by Bloomberg in its "Batteries/Battery Systems" industry classification.

The results are startling. In terms of EBIT margin, ABAT ranked #1 out of 106 global companies, with an EBIT margin of 39%, compared to 23% for the next closest competitor Exide Industries Ltd of India, a \$40 billion revenue business.



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| | Ticker | Short Name | EBIT Mrgn LF | Rev - 5 Yr Geo Gr:Q | GM:Y | Revenue T12M | Market Cap | P/E |
|-----|--------|---------------------|-----------------|------------------------|--------|-----------------|------------|-------|
| 1) | ABAT | US ADVANCED BATTERY | 38.97% | 71.20% | 47.25% | 97.13M | 281.30M | 7.83 |
| 2) | EXID | IN EXIDE INDUS LTD | 22.52% | N.A. | N.A. | 39.79B | 113.82B | 21.78 |
| 3) | 300014 | CH EVE ENERGY-A | 22.36% | N.A. | 32.27% | 205.31M | 3.20B | 55.11 |
| 4) | NEWN | US NEW ENERGY SYSTE | 21.08% | N.A. | 30.50% | 82.74M | 67.39M | 3.81 |
| 5) | 082920 | KS VITZROCELL CO LT | 19.60% | N.A. | 32.18% | 43.27B | 53.11B | 6.75 |
| 6) | ASSAD | TU SOC ACCUM TUNIS | 17.86% | N.A. | N.A. | 66.50M | 130.68M | 14.67 |
| 7) | ETIT | MK ETI TECH CORP | 17.78% | N.A. | 24.05% | 74.03M | 177.00M | 18.31 |
| 8) | AMRJ | IN AMARA RAJA BATT | 17.26% | 38.85% | N.A. | 14.65B | 15.02B | 9.00 |
| 9) | 023890 | KS ATLASBX CO LTD | 15.83% | 19.53% | 21.64% | 438.44B | 244.31B | 4.34 |
| 10) | PAC | VN DRY CELL & STORA | 15.58% | N.A. | 22.21% | 1.67T | 1.10T | 8.35 |
| 11) | ENR | US ENERGIZER HOLDGS | 14.69% | 6.65% | 47.53% | 4.25B | 4.71B | 13.12 |
| 12) | SHNP | IT E. SCHNAPP CO WO | 14.56% | N.A. | 38.12% | 146.79M | 151.02M | 9.10 |
| 13) | TUAZ | RU TYUMEN ACCUM-BDR | 14.29% | N.A. | 16.14% | 3.19B | N.A. | N.A. |
| 14) | 004490 | KS GLOBAL & YUASA B | 13.45% | 26.47% | 21.26% | 790.20B | 537.60B | 6.79 |
| 15) | CHNS | LN CHINA SHOTO PLC | 13.18% | N.A. | 32.00% | 201.56M | 55.32M | 2.42 |
| 16) | 951 | HK CHAOWEI POWER | 11.86% | N.A. | 28.92% | 2.43B | 2.93B | 9.07 |
| 17) | INOH | JR COMPREHENSIVE MU | 11.28% | N.A. | 20.55% | 6.87M | 3.91M | 19.41 |
| 18) | 5MB | BU MONBAT AD | 11.25% | N.A. | 98.58% | 160.98M | 280.41M | 20.29 |
| 19) | 1537 | TT KUNG LONG | 11.19% | N.A. | 21.25% | 3.82B | 4.48B | 11.83 |
| 20) | TNRK | US TNR TECHNICAL | 10.46% | 3.77% | 31.91% | 9.29M | 4.29M | 6.04 |
| 21) | 6121 | TT SIMPLO TECHNOLOG | 10.33% | N.A. | 18.08% | 38.70B | 48.66B | 14.62 |
| 22) | ATBA | PA ATLAS BATTERY | 10.08% | N.A. | 16.79% | 3.16B | 1.93B | 10.88 |

Analyze

Stats: ☐ Min ☐ Max ☐ Avg ☐ Std Dev ☐ More...

Grouping None

☐ Zoom 100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.

Out of the 106 companies provided by Bloomberg in the “Batteries/Battery Systems” classification, Bloomberg records the EBIT margins for 79 of them (the remaining companies’ margins are shown as “N.A.”). ABAT reports a 39% EBIT margin. Only three other companies report EBIT margins above 20%, one of which is NEWN, another suspect Chinese reverse merger company. Only 10 companies report EBIT margins above 15%. ABAT, a company with less than \$100m of sales and a relatively tiny player in a commodity industry, is an extreme outlier in our analysis. ABAT also comes up top in other profit margin metrics, with the #1 ranking in EBITDA margin and #2 ranking in net income margin.

Is it possible that a company with only about 5 years of operating experience is generating higher margins than a company such as Energizer with its 15% EBIT margins, based on the “quality and efficiency of the assembly lines”?

Perhaps it's ABAT's position in China and access to cheap labor that gives it such an amazing edge in the global arena. We can test this hypothesis by comparing ABAT to a handful of other Chinese battery manufacturers. The independent third party research organization Research in China publishes an annual report titled “Global and China Rechargeable Lithium Battery Industry Report”. In the 184 pages of the 2009-2010 edition, no mention is made of ABAT or its subsidiaries. The report does, however, make mention of China BAK Battery Inc. (BAK), BYD Company (BYD), SCUD Group Ltd, and Tianjin Lishen, which generate respective revenue of \$222m, \$5,805m, \$185m, and \$295m.

Other Chinese battery manufacturers which are not active in the lithium polymer market can also be compared to ABAT. Examples include the Coslight Technology International Group Limited and Tianneng Power International Limited, with \$352m and \$330m of revenue respectively in 2009. Gross margins and operating profit margins for all six of these companies,

as well as ABAT, have been summarized in the table below for the most recent available fiscal year:

| Company | Gross Margins | Operating Profit Margins |
|-------------------------|---------------|--------------------------|
| China BAK Battery, Inc. | 10.6% | -9.7% |
| BYD Company | 17.7% | 7.3% |
| SCUD Group Ltd | 18.1% | 5.8% |
| Tianjin Lishen* | | 5.4% |
| Coslight Technology | 26.6% | 9.1% |
| Tianneng Power | 28.5% | 14.3% |
| ABAT | 47.3% | 39.0% |

**This is a subsidiary of CNOOC and financial statements were not readily ascertainable, although it is evident that the Research In China report is using numbers specific to Tianjin Lishen.*

ABAT's operating margin is nearly triple that of its closest competitor and six times that of the median operating margin of our Chinese battery makers.

Obviously, strong operating performance alone would not normally be cause for concern. But when a company is doing as well as ABAT, investors need to understand why or how. ABAT clearly states in its annual report that it has limited (if any) technological advantage, and is competing in what is predominantly a commodity market. We have spoken to a customer who has visited ABAT's Harbin battery manufacturing plant, and he has stated that there was nothing uniquely special about the Harbin facility. We also hired investigators to visit the Harbin facility and their findings are discussed later in this report.

The founder of ABAT, Zhiguo Fu, established it in 2001 without any prior knowledge, experience, or expertise relating to batteries or manufacturing. Fu's background is in real estate. Furthermore, this company didn't begin manufacturing until 2004. ABAT has limited operating experience, an unrecognized brand name, and production facilities too small to claim economies of scale. Yet it seems like no matter how we compare ABAT to its competitors, ABAT's financial figures come out ahead despite the numerous causes for concern discussed elsewhere in this report.

The Above Comparison was Conservative

The gross margins and operating profit margins quoted above for ABAT include both the Heilongjiang ZQPT operations and the Wuxi ZQ operations. The margins for Wuxi ZQ, which makes the electric vehicles, are substantially lower than the margins for Heilongjiang ZQPT, which is responsible for battery manufacturing. If we exclude the electric vehicle business, the battery operation's segment EBIT margin for 2010 was actually 46%, which is even more inflated than the 39% figure quoted on Bloomberg and shown in our comparable company comparison above.

This Harbin plant is either the world's most spectacular battery manufacturing facility, or the Company's financial statements are fiction. We believe that it's the latter.

In the words of [John Bird](#), the godfather of Chinese reverse merger fraud exposés, "It's like somebody telling you they just drove over here at 600 miles per hour. It's not going to happen."

Wuxi's Highly Unlikely Turnaround

ABAT acquired the Wuxi ZQ operations in May 2009, when it announced that it would acquire Wuxi Angell Autocycle Co., Ltd. for \$13.9m in cash and 3m ABAT shares (worth \$9.9m given the \$3.29 closing price of ABAT shares as of May 4, 2009, the date of acquisition). The cash was used to retire Wuxi's various liabilities, given that the Wuxi operations were highly indebted, delinquent on payments to creditors, and in operational disarray.

On July 20, 2009, ABAT filed an [8K](#) providing Wuxi Angell's historical financial statements. The 8K paints a bleak picture of Wuxi Angell's historical operations. Below is a financial summary of the Wuxi operations prior to their acquisition by ABAT:

Financial Statements for Wuxi Operations

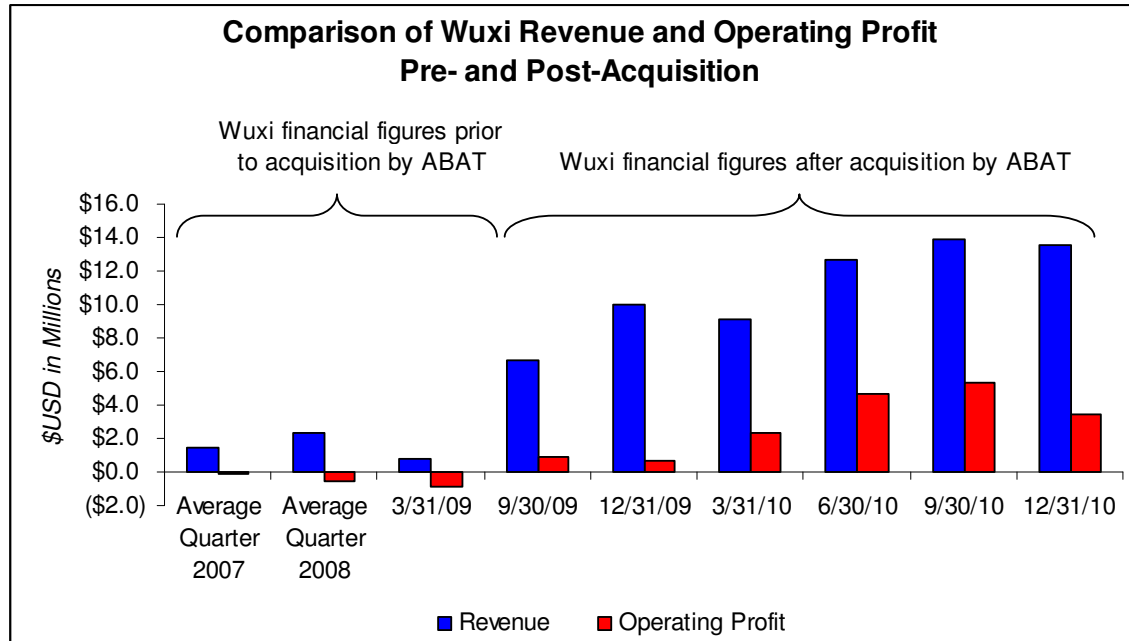
| | Prior to Acquisition by ABAT | | | | |
|-------------------------|------------------------------|--------------|--------------|---------------|--------------|
| | Year Ended | | LTM | Quarter Ended | |
| | 12/31/07 | 12/31/08 | 3/31/09 | 3/31/08 | 3/31/09 |
| Sales | \$5.9 | \$9.3 | \$7.4 | \$2.7 | \$0.7 |
| COGS | 4.5 | 8.5 | 7.2 | 1.9 | 0.6 |
| Gross Profit | 1.3 | 0.9 | 0.2 | 0.8 | 0.1 |
| SG&A | 1.7 | 2.9 | 3.5 | 0.3 | 1.0 |
| R&D | 0.0 | 0.4 | 0.4 | 0.0 | 0.0 |
| Operating Profit | (0.4) | (2.4) | (3.8) | 0.5 | (0.8) |
| <i>% margin</i> | -6.2% | -25.9% | -50.8% | 18.2% | -112.7% |
| Interest Income | (0.8) | (1.1) | (1.1) | (0.1) | (0.2) |
| Other Income | 0.0 | (0.2) | (0.2) | 0.0 | 0.0 |
| Other Expenses | (0.0) | 0.0 | 0.0 | (0.0) | 0.0 |
| Pre-Tax Income | (1.2) | (3.7) | (5.1) | 0.3 | (1.0) |
| Income Taxes | 0.8 | 0.9 | 0.9 | 0.0 | 0.0 |
| Net Income | (0.4) | (2.8) | (4.2) | 0.3 | (1.0) |
| Cash Flow From Ops | (0.5) | (3.6) | (8.5) | 0.7 | (4.1) |
| CapEx | (0.6) | 0.0 | (0.0) | 0.0 | (0.0) |
| PP&E | 20.0 | 20.0 | 19.6 | | 19.6 |
| Cash | 1.2 | 3.5 | 0.2 | | 0.2 |
| Debt | 8.9 | 9.2 | 9.2 | | 9.2 |
| Current Assets | 5.3 | 7.5 | 4.8 | | 4.8 |
| Current Liabilities | 17.5 | 22.8 | 20.7 | | 20.7 |
| Total Assets | 31.0 | 33.5 | 30.4 | | 30.4 |
| Total Liabilities | 17.5 | 22.8 | 20.7 | | 20.7 |
| Total Equity | 13.5 | 10.7 | 9.7 | | 9.7 |

As we can see, the Wuxi operations generated negative operating profit in fiscal years 2007 and 2008 and the last twelve months ended March 31, 2009. Revenue declined to a mere \$749k in the most recent quarter prior to ABAT's acquisition and no money was being invested in capital expenditures. The Company had net debt of \$9.2m on March 31, 2009 and couldn't generate cash flow to service it, given its operating loss of \$3.8m in the prior 12 months. It had negative working capital of \$15.9m. It was being sued for non-payment by numerous creditors, including Wuxi Lide Auto Parts Co., Ltd., Jiansu Sanjiang Disheng Electric Machinery Co., Ltd., Huaren



Construction Group Co., Wuxi Longbiap Electronics., Ltd., and Jiande City Five Star Automobile Co., Ltd. for delinquent payments of more than \$2m.

Yet if we are to believe the SEC financial statements, ABAT was able to rapidly transform the Wuxi operations into a world-class electric scooter manufacturer within a few mere months. Below are charts comparing revenue and EBITDA at the Wuxi operations prior to and subsequent to ABAT's acquisition in May 2009:



In its very first full quarter of owning Wuxi, ABAT was able to generate 19% EBITDA margins in the Wuxi segment, compared to the facility's negative EBITDA throughout 2008 and the first quarter of 2009. By the first quarter of 2010, the Wuxi segment was posting an EBITDA margin of 30% and by the third quarter of 2010, the EBITDA margin had grown to 40%.

Revenue growth was astronomical too. By the final quarter of 2009, the Wuxi operations were generating more than 10 times as much revenue as they had in the most recent quarter prior to ABAT's acquisition. A business that generated \$6m revenue in 2008 and \$20m revenue in 2009 was suddenly able to generate \$49m revenue in 2010. Another spectacular performance by ABAT management!

It's theoretically possible that ABAT executives are superhuman turnaround experts. It's far more likely that they are lying about their numbers.

Wuxi ZQ Site Visit

As part of our investment research process, we sent an experienced factory inspector to the Wuxi Angell autocycle production facility. What we found was not encouraging.

- Out of four assembly lines, only three were operational.
- Staff included 200+ workers, but only 20 are office workers, indicating likely weaknesses in R&D, engineering, QC, and sales.



- Factory management indicated 20,000 unit sales for 2010, with prices ranging from \$450-\$920 USD. This compares to 90,000 units reported to us by ABAT VP of Finance Dan Cheng on a conference call, a number which can also be backed into using data provided in ABAT's 10-k.
- The facility does not have a motorcycle manufacturer's permit issued by the Chinese government.
 - Management claims to use the VIN of a partner, which is illegal.
- Our investigators' greatest concern was the lack of quality control (QC).
 - No line inspector or inspection of finished products.
 - No inspection list attached to each bike.
 - No testing center inside the factory.
 - The facility lacked basic equipment to test different parts for new product development.
 - Motor speed and efficiency testing machines were present, but no noise, temperature, or salt-fog testing machines.
 - No incoming parts inspection.

The quality control issues described above are further evidenced in our conversations with ABAT customers presented later in this report. Our investigator also took numerous pictures:

One of the three assembly lines:





Assembly lines:



Motor Workshop (2 lines/10 people) is cleaner than average Chinese factories:





Motor testing machines:



Inside motor workshop – there was no system to differentiate between qualified and unqualified motors, which is a sign of poor quality control:





Below is a picture of the controller workshop. One controller line with 4 people; the other line assembles the battery pack module into the battery box with 10 people:



Battery module comes from ABAT and battery case comes from another supplier:





Injection Workshop:



Plastic Molds for e-scooters:





R&D Room is shown below. Test riding demonstrates controller has time delay issues and motor power is too small for export market:



Harbin ZhongQiang Power-Tech Site Visit

As lacking as the facilities were in the Wuxi facility, the Power-Tech site visit was even more disturbing in light of the world-class margins and the Company's reliance on this facility to support the bottom line.

Our investigators concluded the following:

It appears that the Harbin plant is in operation, does produce cells, and has sales. The semi-automated processes... are more advanced than some of the battery companies of China, and far **less advanced than battery companies of international standing** such as ATL, Lishen, Samsung, LG Chem. It appears that they do some things well, and have some potential great strength, but appear to have limited ability and concepts in the marketing and sales of their product. Selling cells to packagers is a common business model for Asian battery factories, but not one that realizes as much profit. And I note that **the CTO acknowledged that the packagers and trading companies were making the entire margin and he was not.** Again, normal for Asian cell makers – but not a way to gain success.

A proprietary BMS (Battery Management System) is essential for a successful battery company in the Light Electric Vehicle space. And the lack of such is a major handicap for Harbin. It appears to me that this company has a tiny business selling Li Ma or LFP (Lithium Iron Phosphate) cells to packagers for use in low priced battery packages sold to the domestic China market. **This is the least profitable business they could have.** The LI-Polymer cells are apparently not really in production (the normal issue with Li

poly) due to high cost of materials and resulting high cost of the cells making them uninteresting to most applications. The LFP cells cannot be exported due to patent issues... **So the only apparent product for any significant sales would be Lithium Manganese cells, and for that to make money for Harbin they would, probably, need to develop their own BMS, become their own packager, and compete with Phylion, Zhenlong, AEE, MGL, LG Chem, Lishen, HYB, and others.**

Unfortunately we were not able to photograph the interior of the facility. Our investigator requested permission, but pictures were not allowed.

Veken Vs. ABAT

On October 16, 2008, ABAT issued a [press release](#) announcing a “five-year sales contract with Veken USA Co. Ltd.” in which “ABAT anticipates delivering 10,000 sets of battery modules per month to Veken USA, generating approximately \$27 million in annual revenue”. ABAT refers to Veken USA as a “a China-based multi-billion dollar corporation and one of the world's leading OEM manufacturers serving many famous power sports brands”.

In actuality, Veken USA was a tiny entity run by only a few people and did “not have any business or management relationship” with the multibillion dollar Veken Group based out of China, according to a letter we’ve acquired from the China-based Veken.

Specifically, the term “Veken” is used by three separate companies, each discussed in detail below:

1. **The Veken Group in China** is a multibillion-dollar revenue conglomerate that has a subsidiary involved in batteries: Ningbo Veken Battery Co., Ltd. The Veken Group’s website that can be found [here](#) and a link to the website of the Ningbo Veken subsidiary can be found [here](#).
2. **Veken USA Company Ltd.** is a tiny company based in the US that is run by a few people and its website can be found [here](#). The company description page claims that Veken USA has “financial backings” of Veken Group. Two months ago, the website claimed that Veken USA “is the marketing branch of the power sports division of Veken Group in China”, which can be seen in this screenshot [here](#). ABAT has also described Veken USA as “a China-based multi-billion dollar corporation and one of the world's leading OEM manufacturers serving many famous power sports brands”. All of these statements are grossly inaccurate, because based on the letter provided below, Veken Group makes it clear that it is unaffiliated with Veken USA.
3. **Veken Scooters** is a company based in the US that was owned by Fred and Kurt Gruenberg. The Gruenbergs, as well as their partner Alice Hu, were tricked into believing that Veken USA was a reliable scooter manufacturer that could source reliable electric vehicles for distribution in the U.S. This company is no longer operational and never sold any scooters.

Below is a letter from the multibillion-dollar China-based Veken Group denying an affiliation with the U.S.-based Veken USA Co. Ltd.:



宁波维科工贸有限公司

NINGBO V.K. INDUSTRY & TRADING CO., LTD

March 18, 2009



Subject: Declaration and reply to the letter from Veken Scooters, Inc.



We have received your letter. With regard to what you described in the letter, Ningbo V.K. Industry & Trading Co. would like to declare as follows:

1. Ningbo V.K. Industry & Trading Co. has never authorized anybody in USA to sign any contract or agreement with your company.
2. Any trade relationship and agreement between Mr. Zhao Ping or Veken USA, LLC and your company does not have any relationship with Ningbo V.K. Industry & Trading Co..
3. Ningbo V.K. Industry & Trading Co. has never had any business relationship as described in the letter with your company, neither have we ever got any payment as described in the letter.
4. Mr. Zhao Ping does not have any business or management relationship with Ningbo V.K. Industry & Trading Co. currently. Any of his remarks or agreement does not have any relationship with Ningbo V.K. Industry & Trading Co..

Best regards,

Ningbo V.K. Industry & Trading Co.

Nine months after the initial press release, on July 21, 2009, Veken Scooters filed a complaint against ABAT, available [here](#). The suit claimed that electric scooters delivered from ABAT were “not manufactured and/or assembled in a workmanlike manner and required immediate work and/or repairs by Plaintiff Veken”, that they didn’t meet U.S. EPA standards, and that they were not properly registered or did not contain proper vehicle identification numbers to be licensed. Veken asked only to exchange the defective merchandise and to be compensated for some basic damages.

This lawsuit is additional proof of the low quality and defective nature of Wuxi’s products. This general theme has been corroborated numerous times throughout our research process. According to ABAT’s financial statements, the Company was able to turn around the Wuxi operations from a factory unable to create products “in a workmanlike manner” in 2009 to a company generating 32% segment EBIT margins in 2010. We think this is highly unlikely. While we believe that Wuxi ZQ sells electric scooters and scooter parts in some shape or form, we’re highly doubtful of the unit’s sales and profit figures as reported in SEC filings. As we wrote

previously, ABAT executives are either superhuman turnaround experts, or they're liars. We suspect it's the latter.

The Fraudulent Shenzhen Zhongqiang Acquisition

On December 20, 2010, ABAT [announced](#) that it would acquire a Shenzhen-based battery maker called "Shenzhen Zhongqiang New Energy Science & Technology Co., Ltd." for approximately \$20 million.

We believe this acquisition is a sham, and that ABAT paid \$20 million in 2010 for an entity that they had previously bought in 2008 for \$1 million, but had not disclosed to public investors. We've seen numerous situations where fraudulent Chinese RTO companies use acquisitions as justifications to transfer cash from public shareholders to related parties. This appears to be one such circumstance.

We know that ABAT acquired the Shenzhen battery company in 2008 because the acquisition was discussed in a lawsuit filed by Sui-Yang Huang on September 30, 2009. Sui-Yang Huang's father owned the former battery maker, and he sued ABAT in U.S. courts over a compensation dispute in September 2009. Specifically, Huang's father owned Shenzhen Shengxi Science and Technology Co., Ltd. ("Shenzhen SST"), which was sold to ABAT for \$1 million.

This can be verified from the court documents, such as ABAT's memorandum available [here](#) or in the [affidavit](#) of Xiezhong Zeng. We've pasted the acquisition agreement that is included in [Exhibit A](#) of the Zeng affidavit below:



收购协议
Acquisition Agreement

收购方：付治国（以下称甲方）

Acquiring company: Zhiguo Fu (Party A)

被收购方：深圳喜胜（译者注：输入错误，应为“胜喜”）科技有限公司（以下称乙方）

Target Company: Shenzhen Shengxi Technology Co., Ltd. (viz. Luke Battery Co., Ltd.) (Party B)

双方经友好协商，就甲方收购乙方达成如下协议：

Through friendly negotiation, Party A and Party B enter this agreement as follow:

一、甲方全资收购乙方所有资产包括：

Part A acquires all assets of Party B, which includes,

1. 固定资产

1. Fixed assets

2. 流动资产，包括原材料、产成品、再生品

2. Floating assets, including raw materials, final products and semi-products

3. 银行账面资金余额。

3. Bank account balance

二、双方协定，收购资金为一百万美元（100 万美元）。

The acquisition price is one million U.S. dollars (\$1,000,000) according to the agreement between Party A and Party B.

三、本合同签订后在 10 个工作日内，将收购资金汇入被收购方指定账户。

~~The payment should be remitted to the account appointed by Party B within 10 business days after signing this agreement.~~

四、本合同签订后，收购方将派会计人员进入乙方进行清产核资。

After signing this agreement, Party A shall designate accountants to audit Party B.

五、本合同签订后，~~被收购方将原企业更名为深圳中强能源科技有限公司（译者注：即 SABAT）。~~

After signing this agreement, Party B shall change the company's name to Shenzhen Zhongqiang Energy Technology Co., Ltd. (Remark: viz. SABAT)

六、公司更名后，所有权发生变化，但经营管理权仍由乙方管理，总体发展目标按总公司（译者注：ABAT）发展规划进行运作。

After changing the name of Party B, its ownership shall be transferred to Parry A; but Party B shall continue to execute the business management rights and run the business under the general plan of the controlling company (Remark: viz. ABAT).

七、协议未尽事宜，双方友好协商解决。

Both parties shall resolve the issues not stipulated under this contract through friendly

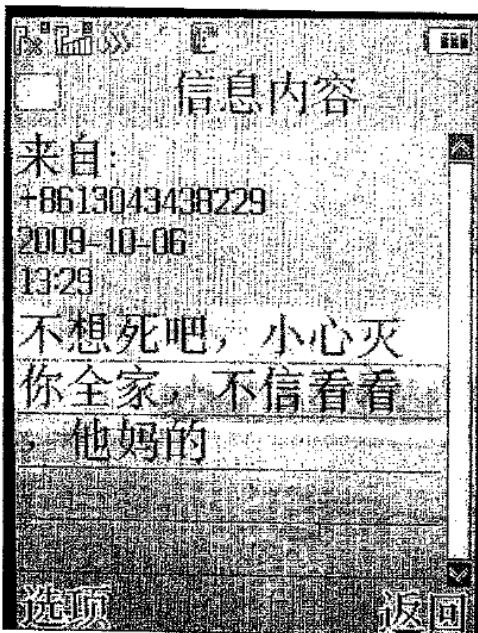


As we can see, ABAT purchased Shengxi Science and Technology Co., Ltd. for \$1 million. The agreement is dated as of August 31, 2008, demonstrating that the acquisition occurred in 2008. As we can also see, after purchasing the target, ABAT changed the name of the company to Shenzhen Zhongqiang Energy Technology Co., Ltd. Furthermore, Zhiguo Fu became the legal representative of Shenzhen Zhongqiang Energy Technology Co., Ltd. in September 2008, as can be seen from [this link](#) to the Shenzhen SAIC registration website (screenshot included here in [Chinese](#) and [English translation](#))

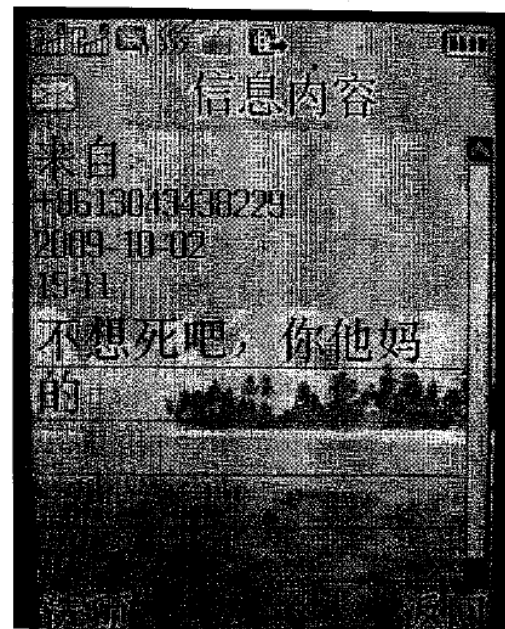
No aspect of this acquisition was disclosed in SEC filings in 2008 or 2009, which itself is materially fraudulent. When public companies make acquisitions, they are required to disclose acquisitions in SEC filings because acquisitions are material events. ABAT did not do so. Instead, ABAT waited until December 2010 and then announced that it was acquiring Shenzhen Zhongqiang Energy Technology Co., Ltd. for \$20 million.

This is \$19 million more than ABAT actually paid in 2008 to purchase the same company.

As a final note, we'll briefly mention a final point about Huang's suit. After bringing suit, Huang claims to have been fired from his position as CTO and told to "work at an ABAT facility located over 1,800 miles from his home", and to have suffered "intentional infliction of emotional distress due to **death threats** that he received after bringing suit". This information can be confirmed in the Opinion and Order filed with Justia which can be found [here](#). The death threats are available in Exhibits H and K in this [court document](#). We've pasted them below from the affidavit:



You don't want to die? Be careful that your whole family will be killed. If you don't believe, wait and see. Fucking you.



You don't want to die? Fucking you.

We tried contacting Huang through his lawyers but have thus far been unsuccessful.

Conversations with ABAT Customers

Since Advanced Battery's inception, management has made numerous claims regarding relationships with suppliers, distributors, research partners, and other related parties. As part of our due diligence process, we have attempted to contact most of the relevant parties that ABAT has mentioned having a relationship with. In many cases, the parties we have contacted have been nonexistent, non-locatable, unwilling to speak, or had something strongly negative to say about ABAT.

In multiple cases, we found customers who either came away from their visits to the Company's factories unimpressed or confident that the Company was inflating its financial figures. In this section, we provide a recording with one such customer, but have concealed and modified his voice.

This customer had signed a contract to receive scooters from ABAT's Wuxi facility in 2009. After receiving defective product, the customer demanded to visit the Wuxi facility that had supposedly been manufacturing the scooters. During our conversation, the customer indicated that he had visited numerous other Chinese manufacturing facilities to which Wuxi could be compared, and he described the Wuxi facility as a "joke" multiple times. The facility was described as "four empty walls", the inadequacy of which made him suspect Wuxi was some sort of distributor operation rather than a manufacturing facility. Furthermore, the customer stated that he thought about contacting the SEC to report ABAT for fraudulent claims made in press releases. He said that "none of the stuff they put out was accurate".

[Click here for a link to a recorded excerpt from our conversation](#)

Below is a transcription from the above recording of our conversation with the customer:

Prescience: Now how does Wuxi fit into the mix here?

Customer: Wuxi Angell Factory was in Wuxi – it was Wuxi Angell... They were the one that Zhao Ping had some type of agreement with them to do the manufacturing of the Veken product. When we got involved, unfortunately we didn't know that it was the tail end of Wuxi being in business. Apparently – oh, gosh, what was his name, I forgot the owner's name, he had rung up all kinds of multimillion dollar bills that he had to pay and couldn't afford production and so forth – so when we actually showed up to the factory in October of 2008, or 2009 – I think it was maybe 2009 – when we showed up to the factory, they weren't doing any manufacturing at all. There was nothing going on. They had a showroom, but it was an empty shell of a building. So the whole thing started to - all the pieces started to come into place because at that point when we had gotten there, it was only 2 months after we first signed this agreement with Mr. Ping. And they sent us three samples that were perfect, and then they sent us a whole container where every single one in the container was junk and then while we're out there, they admitted to us that they knew it was junk. That they had all of this product that they had made that had failed, but they had to get some money in, so they sold all the product to us. And they knew that when the container left, that it was all junk. Everybody knew.

Prescience: Now would you happen to have pictures of your visit of the factory?

Customer: Um, I don't know if I have pictures of that visit, because they didn't want us to visit the factory. So I pulled a fast one on them. And what I did was they kept saying 'Oh yeah we're going to fix all the problems, we're going to fix all the problems', and they kept bringing samples to the front of the facility. And it was a series of 6-



8 buildings, and what I did was – it was still warm at that point when we were there and they had overhead doors open to these buildings – when I was test driving these new hybrid scooters, I was driving through the buildings. I would take it to the end of the block and I would be sneaky and I would go through one overhead door and out the other. So [in] one building where they were supposed to be doing manufacturing, it was all these dust-covered frames in one corner, and it was obvious to tell that there was nothing going on there. Nothing going on. Their QC department was 3 or 4 dust-covered machines and 2 schleps sitting in an office where there was nothing happening. And they were like ‘oh yeah we QC everything blah blah blah’ and it was such bullshit. And you can tell – we visited so many factories. We went to a different area that specializes in motorsports and you could see that they have all the equipment to do all the testing. Here, they just threw some stuff in there and it was never touched.

Prescience Are you comparing it to other companies that you visited?

Customer Yes, legitimate companies.

Prescience So there was a significant difference there?

Customer Oh my god, yes. It was a joke. It was absolutely the biggest joke I’d ever seen. Any normal person that came through there would realize that it was a joke.

The customer frustration exemplified above is not isolated to just one customer. Other customers we’ve been in touch with have voiced similar opinions of ABAT. For example, in 2010 ABAT touted an agreement to re-enter the US market, expecting to deliver 2,000 electric scooter units to All-Power America for \$1.1 million. Only half the delivery was taken before serious issues surfaced regarding quality control and licensing. The following quote is one excerpt from the long conversation we had regarding these issues and more with an All-Power executive:

All-Power: Every step of the way we had some serious QC issues... The licensing is the official word that we gave out to everybody because that was a very tangible problem that the retailer used to return the products. But licensing was a major part of it, they should have checked for licensing compliance before they sent it.

Prescience: So Wuxi, which is the company that you got the cycles from, they sent you shitty product, am I reading you right? I’m not sure if I follow you?

All-Power: Yeah, and that caused a major loss of confidence with our customer. Plus we missed a lot of deadlines, and the customer said “you missed a lot of deadlines plus you have licensing issues, we’re going to send you all of them back”. So they put them on trucks and sent them back. Now we’re stuck with the inventory that I don’t know how the hell to move.

In conjunction with the evidence from the Veken Scooter case described above, we see how management has twice produced excessively optimistic press releases announcing the release of ABAT brand products in the US. Each time, they have sent inferior, unusable products, and left customers on the hook. This compares to the language provided by Fu [announcing the relationship with All-Power](#):

This new order is an example of management’s significant progress in expanding and servicing overseas customers. Entering the US market is a very important milestone for us and the renewal of orders from our current customer base in Europe, the Middle East

and South East Asia only adds to the recognition our eco-friendly electric vehicles are receiving all around the world.

Wuxi ZQ mentions additional customers in its February 3, 2010 [press release](#) and its 2010 10K. We review our diligence with some of these customers below:

Ampere

Our attempts to contact Ampere proved successful, and management indicated a productive and ongoing relationship with ABAT. The Wuxi facility does indeed appear to be distributing scooter parts to Ampere. Ampere purchases the parts from ABAT and then constructs the final product on-site in India. However, the Ampere executive with whom we spoke confirmed our belief that ABAT's products are not uniquely special, or particularly different from other suppliers, such that the Company can generate margins that are orders of magnitude above competitors'. Rather, Ampere selected ABAT because they "follow instructions better" than other scooter parts suppliers. The conversation was further evidence that Wuxi ZQ does not produce a product deserving of industry-leading margins.

Autoplaza Holdings

We didn't find any information about a company called Autoplaza Holdings. An internet search yielded no relevant results other than ABAT filings and media reports discussing ABAT.

Eco Style Di

We could find no information about a company with this name. Eco Style Di, which translates to "Eco Style Of", isn't listed in the Italian yellow or white pages (Pagine Gialle, Pagine Bianche) and an internet search yielded no relevant results other than ABAT filings and media reports discussing ABAT.

Floretti

Our attempts to contact Floretti, also called Tradeforme BV, proved successful, and management indicated a productive and ongoing relationship with ABAT. Floretti sources electric scooters from ABAT and ABAT is one of several scooter suppliers that Floretti uses.

Kanuni Motorcycle

We spoke to an executive at Kanuni Motors. They did not recognize Wuxi ZhongQiang or Advanced Battery Technologies as a supplier to them of batteries or scooters. They said that they do not have any suppliers with factories in Wuxi.

Motoran

Attempts to contact this company have failed, both by phone and email. Management did not return our numerous calls. We attempted to contact Motoran both from our offices in the US, and through investigators located in Turkey.

Menzaghi Motors

We spoke with the CEO of Menzaghi Motors, Paolo Pincirolì. Pincirolì confirmed that they are a customer of Wuxi ZQ and have known them for "3 or 4 years". They've ordered approximately 100 scooters from them annually, providing further evidence that Wuxi is inflating its sales numbers. For Wuxi ZQ to meet its sales targets, it would need to export at least 30,000 scooters annually.



We also got the following quote from Menzaghi Motors: “Sometimes when I [visit] this company, I see the people work. Some other times, the people don’t work, I don’t know why.”

Pincirolì compared Wuxi ZQ to other scooter suppliers that they use. It was clear that several of their other suppliers provided higher quality products and quickly corrected mistakes. For instance, Pincirolì said: “[The competitor] solves the problems in a short time. [Wuxi] takes too much time – these people don’t understand the situation in the market. Of course, I see only the European market, but I cannot tell to our customer that you must wait 3 months, 4 months or 5 months before your problem is solved.”

We also asked whether Wuxi ZQ’s scooters suffered from any quality control issues. His response: “I don’t think that [Wuxi ZQ] have people to control quality because sometimes I see one man – the chief of the line of production – he tests a vehicle, but for 10 meters, not more [chuckle]. I don’t think they have a serious quality control [department], like, for example, Jinstar, Iden, Sukida, Kai-sun. These other companies have special departments to control quality. [Wuxi ZQ] I don’t think cares.”

We concluded from our conversation that Wuxi ZQ was not a significant supplier to Menzaghi Motors, and that the quality of their product was average, as opposed to one deserving of industry-leading margins.

Tinterparts Trading GmbH

We were unable to locate any information about this company. Tinterparts Trading is not listed in the German telephone book (Das Telefonbuch) and an internet search yielded no relevant results other than ABAT filings and media reports discussing ABAT.

Conversations with ABAT Partners

Alongside numerous ruined or strained customer relationships, we have also uncovered a number of failed partner relationships.

ZAP

In July 2007, ABAT signed an agreement with [ZAP](#) to supply \$5.168m worth of batteries for ZAP’s vehicles. ZAP, a publicly traded electric vehicle developer that trades under the ticker ZAAP, reported total COGS of \$3.34mm, \$6.79mm, and \$4.49mm in 2009, 2008, and 2007 respectively. This indicates that ABAT sales estimates are likely inflated.

ZAP allegedly has a long history of exaggerating claims in press releases, taking advantage of investors, and various other sorts of foul play as described in an expose from Wired Magazine which can be found here: [“Hype Machine: Searching for ZAP’s Fleet of No-Show Green Cars”](#).

We spoke with ZAP’s co-founder and came away further confident that ABAT is fabricating its financial statements. He said he had visited the Harbin facility twice – once last year and once three years ago – and also said he helped introduce ABAT’s founder Zhiguo Fu to Wuxi Angell. To be clear, he did not state that ABAT was fabricating its numbers. But reading between the lines, we drew the conclusion that he had his own suspicions about ABAT’s purported margins and growth.



When we asked whether he thought the Company's numbers were real, he responded: "I can see his numbers are climbing like you said, and, who knows?" We pressed:

Prescience: Listen, seriously, you've been there. Do you think it's real?

ZAP: Ah, well, yeah I know, there was that recent article in the Wall Street [Journal] that said that all these Chinese companies are faking their numbers. [chuckle]. Maybe you saw that a couple days ago.

Prescience: I did see that.

ZAP: Yeah, yeah, so that's why I'm saying – I don't know his real numbers. I knew that he grew, but I can't tell you whether his numbers are real or not.

At no point did he say that he believed ABAT was committing fraud. But we came away from the conversation further confident that ABAT was fabricating the financial figures in its SEC filings.

Altair Nanotechnologies, Inc. of Reno, Nevada

An agreement was entered into in which Altair would supply ABAT with nano-structured lithium spinel electrode materials in 2005. According to ABAT, "the inclusion of these nanomaterials in ZQ Power-Tech's batteries has significantly increased the power delivery and reduced the time required for recharge". However, our conversation with the CEO of Altair reveals a different story:

Altair: As I indicated we had signed an agreement in 2005 and at that time sold them some raw material and there literally were no further communications after some time in 2007. To be quite honest with you they stiffed us on the payment.

Prescience: They skipped payment?

Altair: Yea, they didn't pay the entire amount due.

ECr Technologies of San Jose

In 2005, the company signed a letter of intent to jointly develop an all-electric bus, for which ABAT would supply the batteries, battery management, and charging systems. This company was headed by Samuel Romano, who had also founded the Georgetown University's Advanced Vehicle Development Program. We could not locate the contact information for ECr Technologies, and Mr. Romano has since retired from Georgetown. We contacted Charlie Prizlaff, the program manager at the Advanced Vehicles team at Georgetown, who said he would forward our correspondence to Mr. Romano. But to date, we have not heard back.

In addition to the US and other global companies above, ABAT purports to have (or have had) relationships with other Chinese companies. Our investigations produced additional findings similar to those above.

Aiyingsi Company of Taiwan (哈尔滨爱英斯汽车部件有限公司)

As far back as 2004, ABAT was commenting on their relationship with Aiyingsi, and indicated that they had received an order for \$21mm of 3.7 volt PLI battery sets. Supposedly "shipments under that order were made to Aiyingsi commencing in 2006". The company could be found on the internet, but our investigator in China failed to contact Aiyingsi when she was told that the Aiyingsi phone had been disconnected. We were able to find the following information about



Aiyingsi but could not track down anyone to speak with:

Legal Representative: 宣立程

Area code: 0451

Tel: 86523976

Fax: 86528628

Address: 68 Longbin Road, Pingfang District, Harbin City, Heilongjiang Province

Beijing Guoqiang Global Technology Development Co. Ltd. (强环球科技发展有限公司)

ABAT claims to have supplied “3,000 battery sets for use in electric garbage trucks that were designed for the 2008 Olympics” between May 2007 and February 2008, for \$10mm. Our investigator in China was able to get in touch with the General Manager, but he refused to answer any questions unless we brought legal proof of our identities to Beijing. However, our investigator commented that “from his tone, it is likely that he knew ABAT and once conducted business with ABAT”.

U Long Run Sheng Technology Co. Ltd.

In 2009, ABAT supposedly entered into an agreement to supply this company with \$7.8mm of batteries. However, nothing could be found out about this company. No information could be found on the internet or in business directories, by us or our investigators in China.

Harbin University of Science and Technology

In 2005, ABAT contracted with the university to design the electrical controls and management systems for a sedan conversion using advanced nanotechnology electrode materials. We were unable to locate the correct person at the university to speak with about ABAT.

Beijing Institute of Technology

In 2005, ABAT contracted to develop and test four electric buses to be built by ABAT for the 2008 Olympic Electric Bus program. We were unable to locate the correct person at the institute to speak with about ABAT.



CFO & Auditor Turnover

In light of the substantial evidence that ABAT is a fraud, high CFO and auditor turnover can be considered as yet another symptom. On average, ABAT has lost either a CFO or auditor more than once per year. Below is a table documenting the Company's CFO and auditor turnover:

| Date | CFO Change | Auditor Change |
|------------|---|---|
| 9/14/2004 | John C. Leo resigned, replaced by Guohua Wan | |
| 9/27/2004 | | Rosenberg Rich Baker Berman & Company resigned, replaced by PKF Hong Kong SAR |
| 12/28/2006 | | PKF Hong Kong dismissed, replaced by Bagell, Josephs, Levine & Co., LLC |
| 4/20/2007 | Guohua Wan resigned, replaced by Sharon Xiarong Tang | |
| 5/13/2008 | Sharon Xiaorong Tang resigned, replaced by Taylor Dahe Zhang | |
| 3/1/2009 | Taylor Dahe Zhang resigned, replaced by Guohua Wan (again) | |
| 12/14/2010 | | Dismissed Friedman, LLP (Acquired Bagell), replaced with EFP Rotenberg, LLP |

Losing a CFO or auditor at least once a year is not normal; rather, it's a sign of potential fraud.

Furthermore, ABAT has made a mockery of the chief financial officer institution. Its CFOs since 2004 have either been company insiders or highly unqualified to be the chief financial officer of an emerging global battery manufacturing powerhouse, which is what ABAT would be if its sales growth and profit margins were real. Below is a chart of the Company's CFOs:

| Date | Name | Comments |
|----------------|--------------|---|
| 3/09-Present: | Guohua Wan | Previous CFO who has been a company insider since the company's inception. Ms. Wan has been general manager of ZQ Power-Tech since 2003. |
| 5/08-3/09 | Taylor Zhang | 29-year-old who had received his MBA from the University of Florida two years before accepting ABAT's CFO position. Prior to joining ABAT, Zhang was the VP of Finance at China Natural Gas, another U.S.-listed Chinese fraud. |
| 4/07-5/08 | Sharon Tang | From 1998 to 2006, Tang was a financial advisor at Smith Barney in New York. We don't think that being a financial advisor at a brokerage firm provides the experience necessary to be the CFO of a Nasdaq-listed company with industry-leading margins and sales growth. |
| 9/04 to 4/07: | Guohua Wan | General manager of ZQ Power-Tech since company's inception in 2003. |
| Prior to 9/04: | John Leo | Temporary CFO following the Company's reverse merger. |



Ms. Guohua Wan is the current CFO and was also formerly CFO from September 2004 to April 2007. She is a key company insider and has been general manager of Heilongjiang ZQ, the company's main operating subsidiary, since the business's inception. Her lack of independence and the fact that she is also the general manager of the Company's main operating subsidiary is troubling.

Prior to Ms. Wan, Taylor Dahe Zhang was only 29 years old when he was hired as ABAT's CFO, and even he resigned in less than a year. Mr. Zhang was previously a Vice President of Finance at China Natural Gas, another U.S.-listed Chinese reverse merger fraud.

Prior to Mr. Zhang, the Company's CFO was Sharon Tang, who joined in April 2007. The vast majority of Ms. Tang's experience prior to her post at ABAT constituted of being a financial adviser at Smith Barney from 1998 to 2006. We don't think that being a financial advisor at a brokerage firm provides the experience necessary to be the CFO of a Nasdaq-listed company with industry-leading margins and sales growth. Ms. Tang lasted only 13 months on the job. Prior to Tang, the Company's CFO was Guohua Wan, the company insider and current CFO previously discussed.

The Company's history of auditors has been equally disappointing. Below is a table listing ABAT's history of auditors:

| Date | Name | Ranking within Global Top 100 Auditors |
|--------------|---|--|
| 2010-Present | EFP Rotenberg, LLP | Unranked |
| 2006-2010 | Bagell, Josephs, Levine & Co., LLC (which later merged into Friedman LLP) | Unranked (Friedman LLP, however, was ranked #47) |
| 2004-2006 | PKF Hong Kong | Unranked |
| 2004 | Rosenberg Rich Baker Berman & Co | Unranked |

None of the Company's auditors have been ranked in the top 100 global auditors at the time of ABAT's hiring. Bagell, Josephs, Levine & Co., LLC was acquired by Friedman LLP in 2010, but Friedman resigned as ABAT's auditor in less than a year.

The Company's current auditor is EFP Rotenberg. Rotenberg & Co., which merged with the EFP Group in 2009, received a [PCAOB inspection](#) in 2008 concluding the following:

The inspection team identified what it considered to be audit deficiencies. The deficiencies identified in one of the audits reviewed included a deficiency of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.

The PCAOB is an independent third-party "nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports".

Instead of hiring a top-4 auditor, or even a top-100 for that matter, ABAT chose EFP Rotenberg as its fourth auditor in six years. If ABAT was truly an emerging battery manufacturing

powerhouse, and actually did have the top operating profit margin by a wide margin out of all global battery makers, it would probably want to hire a top-4 auditor.

Shareholder Dilution

US-listed Chinese frauds make money by issuing shares to foreign investors. If it wasn't for the fact that public investors are losing or stand to lose millions of dollars, the situation would be almost laughable. Despite the fact that management is reporting more than enough cash on the balance sheet to fund operations and significant expansion and despite the fact that no responsible management team would sell shares in a fast-growing, high margin, cash-rich business for less than 12x earnings, ABAT issues shares on a very regular basis.

On July 12, 2004, Buy It Cheap.com, Inc., which ABAT had recently reverse merged into, changed its name to Advanced Battery Technologies, Inc. and began to trade on the OTCBB under the ticker ABAT. On this date, there were 1,984,258 shares outstanding plus Series D Preferred Stock which was to be converted into an additional 8,061,130 shares, for a total outstanding shares of 10.045 million shares. ABAT simultaneously authorized an increase in the number of shares available to a maximum of 60 million shares.

From here on out, management began diluting shareholders excessively. They did this by issuing shares in public offerings, paying for acquisitions with shares, and paying management with shares. The following is a timeline of major share dilutions and trailing earnings multiples:

| Date | Event | Shares Out. | Trailing Normalized P/E |
|----------|---|-------------|-------------------------|
| 07/12/04 | Name change, reverse stock split, and share authorization | 10.045 | |
| 08/26/04 | 5 million shares registered for employee benefit plans | 10.380 | |
| 01/27/05 | 11.277 million shares awarded to insiders for repayment of loans they made to ABAT | | |
| 03/31/05 | First Annual Report filed by ABAT | 24.237 | |
| 01/06/06 | Fu transfers remaining 30% of Heilongjiang ZhongQiang Power Tech Co., to Cashtech in exchange for 11.781 million shares | | |
| 01/10/06 | Fu transfers a patent worth \$2.2mm to ZQPT for 4.4mm shares | | |
| 04/14/06 | An annual report is filed | 41.578 | |
| 2006 | During this year, 8.050mm shares are issued under the employee equity incentive plan | | |
| 04/11/07 | Annual report is filed | 49.628 | 10.5x |
| 07/15/07 | Agreement entered with public relations company that includes 200,000 warrants as compensation | | 11.6x |
| 03/28/08 | Annual report is filed | 49.689 | 23.9x |
| 08/11/08 | Series B warrants issued to institutional investors | | 15.5x |



| | | | |
|----------|--|--------|-------|
| | that had funded a \$12 million private placement 3 days prior, which if fully subscribed to could result in an additional 4.094 million shares of dilution | | |
| 03/16/09 | Annual report is filed | 54.662 | 6.2x |
| 05/04/09 | Acquired Wuxi Angell for cash and 3 million shares | | 12.0x |
| 05/28/09 | ABAT issues 3 classes of warrants and 1 class of preferred shares capable of causing additional dilution of 3.836mm shares | | 13.1x |
| 08/17/09 | Registration statement filed to sell up to \$130mm worth of common stock, preferred stock, debt, and warrants | | 19.6x |
| 09/30/09 | Sold 4.592mm shares and 1.378 warrants for \$19mm pursuant to the registration statement discussed above | | 21.1x |
| 03/30/10 | Annual report is filed | 68.587 | 13.2x |
| 11/29/10 | Entered an agreement to sell 7.5mm shares and 3.75mm warrants for \$30 million, the announcement of which dropped the stock price 10% in a single day | | 11.1x |
| 12/01/10 | 424B5 filed indicating the number of shares which will be outstanding as a result of the above mentioned purchase agreement | 76.403 | 11.1x |

We've also provided graphical depictions of ABAT's egregious share dilution. Below is an annotated timeline demonstrating the Company's share issuance:



Below is a graphical comparison of the share count to ABAT's stock price and trailing price earnings ratio. As we can see, the heavy dilution has resulted in a stagnating stock price over the past few years despite the increased reported earnings, per Bloomberg:



We can also see from this graph that ABAT has been issuing shares at irrationally low valuation multiples. For a company that supposedly grew revenue from \$4.2 million in 2005 to \$63.6 million in 2009, paying even 15x earnings creates terrible dilution for shareholders. Yet in its most recent capital raise, management was willing to sell shares for less than 12x trailing earnings. If the capital was absolutely necessary to build out facilities, it might be justifiable. But over the same span of time, ABAT reportedly has grown cash from \$18k to \$53 million. As of the third quarter, it had a cash balance of \$74.3 million. It's hard to argue they needed more cash. Likewise, PP&E has grown from \$11.9 million to \$47.2 million and intangibles have grown from \$528k to \$14.3 million. Therefore, for every dollar either raised in the capital markets or earned, only fifty cents was spent. And with only \$21.8 million of purported operating cash flow between 2005 and 2009, we can guess where most of the money came from: US investors.

The most recent offering, which management expects will raise between \$28.4 million and \$42.7 million, offered no insight into how the money would be spent. Specifically, the prospectus states:

We intend to use the net proceeds received from the sale of the securities for further development of our existing product lines and other general corporate purposes. We cannot estimate precisely the allocation of the net proceeds from this offering. The amounts and timing of the expenditures may vary significantly, depending on numerous factors. Accordingly, our management will have broad discretion in the application of the net proceeds of this offering.

This degree of share dilution is completely unjustifiable. Even the most forgiving shareholder can only draw the conclusion that management has continually ignored its fiduciary responsibility to investors since day one. Any rational investor, realizing that this is how frauds

steal money, would look at this track record and see a smoking gun. Not coincidentally, the most recent announcement of share dilution dropped the stock price by 12.4% in a single day. Investors are catching on.

Conclusion

Fraud is not an American problem or a Chinese problem – it's a greed problem that arises when trust or hope replace critical thinking. We will review the key facts once more:

- SAIC filings show that ABAT is reporting significantly lower revenue and operating losses to the authorities in China. For 2009, SAIC filings showed less than \$2 million of revenue, compared to \$64 million in SEC filings.
- ABAT has unreasonably high margins in an established industry with strong competitors. The Company's SEC-reported margins and return on capital are virtually impossible. Out of 106 global battery manufacturers as classified by Bloomberg, ABAT has the highest operating profit margin by a wide margin. When compared to six leading Chinese battery makers, ABAT's operating margin is triple that of its closest competitor and six times that of the median operating margin of the comparable companies.
- Site visits show underutilized facilities lacking in quality control. We hired investigators to visit both the Harbin and Wuxi facilities, and provide photos as well as commentary from our investigators. Our investigators concluded that both facilities produce commodity, low-margin products that are highly unlikely to be generating industry-leading margins or return on capital.
- In December 2010, ABAT announced that it was acquiring a Shenzhen battery maker for \$20 million. We believe this acquisition is a sham, and that ABAT paid \$20 million in 2010 for an entity that they had previously bought in 2008 for \$1 million, but had not disclosed to public investors.
- Confirmation from former customers and partners that the Company is likely a fraud. After visiting one of ABAT's plants, one customer called the facility "absolutely the biggest joke I'd ever seen". A recording of the conversation is available [here](#). In another conversation available [here](#) and [here](#), a customer said the CEO admitted to hiring an accounting firm "to cook his stock price up".
- Low quality auditors and high turnover. The company has had 4 auditors in the past 7 years, with no auditor being ranked in the top global 100 auditors at the time of hire.
- Unqualified CFOs and high turnover. A CFO or auditor has resigned at least once a year. The Company's past three CFOs have included: (i) a company insider who has been general manager of the Company's main operating subsidiary since 2004, and is therefore not remotely independent, (ii) a 29-year-old who was formerly VP Finance at China Natural Gas, another fraud, and (iii) a candidate whose primary experience comprised of being a financial adviser at Smith Barney.
- Continuous share dilution through secondary offerings, despite having more than adequate cash reserves. Through repeated share issuances, the Company has grown its outstanding shares from 10.0 million following the 2004 reverse merger to 76.4 million today.

ABAT management has lied on their financial statements. The fabrications are so extraordinary that ABAT appears to be the single most productive and efficient battery manufacturer in the world, despite its small economies of scale and relative obscurity. The information provided to investors regarding customers, partners, and suppliers has been tracked, and in many circumstances has led to a dead-end or a ruined relationship. The fraud hypothesis is furthermore supported by the long list of CFOs and accountants, a sham acquisition in December 2010, as well as the never-ending share dilution for no clear purpose.

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