

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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 NO. 000-52103

**HONG KONG HIGHPOWER TECHNOLOGY, INC.**

(Exact Name Of Registrant As Specified In Its Charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**20-4062622**

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

**Building A1, Luoshan Industrial Zone,  
Shanxia, Pinghu, Longgang,  
Shenzhen, Guangdong, 518111  
People's Republic of China**

(Address of principal executive offices)

**N/A**

(Zip Code)

Registrant's telephone number, including area code: **(86) 755-89686238**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of each exchange on which registered
Common Stock, \$0.0001 par value	Nasdaq Global Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

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

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

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

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

The aggregate market value of the registrant's issued and outstanding shares of common stock held by non-affiliates of the registrant as of June 30, 2009 (based on the price at which the registrant's common stock was last sold on such date) was approximately \$8.1 million.

There were 13,582,106 shares outstanding of the registrant's common stock, par value \$0.0001 per share, as of March 29, 2010. The registrant's common stock commenced trading on the Nasdaq Global Market on December 21, 2009. Prior to December 21, 2009, shares of common stock were listed for trading on the NYSE Amex. The registrant's common stock is listed on the Nasdaq Global Market under the ticker symbol "HPJ."

Documents Incorporated by Reference: None.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this Form 10-K, includes some statements that are not purely historical and that are “forward-looking statements.” Such forward-looking statements include, but are not limited to, statements regarding our company’s and our management’s expectations, hopes, beliefs, intentions or strategies regarding the future, including our financial condition, results of operations, and the expected impact of the share exchange. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words “anticipates,” “believes,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “might,” “plans,” “possible,” “potential,” “predicts,” “projects,” “seeks,” “should,” “will,” “would” and similar expressions, or the negatives of such terms, may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

The forward-looking statements contained in this Form 10-K are based on current expectations and beliefs concerning future developments and the potential effects on the parties and the transaction. There can be no assurance that future developments actually affecting us will be those anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond the parties’ control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements, including the following:

- The current economic downturn adversely affecting demand for our products;
- Our reliance on our major customers for a large portion of our net sales;
- Our reliance on a limited number of suppliers for nickel, our principal raw material;
- Our ability to develop and market new products;
- Our ability to establish and maintain a strong brand;
- Protection of our intellectual property rights;
- The market acceptance of our products, including our new line of Lithium-ion batteries;
- Our ability to successfully manufacture Lithium-ion batteries in the time frame and amounts expected;
- Exposure to product liability and defect claims;
- Changes in the laws of the PRC that affect our operations;
- Our ability to obtain and maintain all necessary government certifications and/or licenses to conduct our business;
  - Development of an active trading market for our securities;
  - The cost of complying with current and future governmental regulations and the impact of any changes in the regulations on our operations; and
  - The other factors referenced in this Form 10-K, including, without limitation, under the sections entitled “Risk Factors,” “Financial Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business.”

These risks and uncertainties, along with others, are also described above under the heading “Risk Factors.” Should one or more of these risks or uncertainties materialize, or should any of the parties’ assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and we cannot predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward looking statements. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

## **PART I**

### **ITEM 1. BUSINESS**

With respect to this discussion, the terms, “we,” “us,” or “our” refer to Hong Kong Highpower Technology, Inc., and our 100%-owned subsidiary Hong Kong Highpower Technology Company Limited (“HKHT”) and its wholly-owned subsidiaries Shenzhen Highpower Technology Co., Ltd. (“Shenzhen Highpower”), HZ Highpower Technology Co., Ltd. (“HZ Highpower”) and Springpower Technology (Shenzhen) Company Limited (formerly named Sure Power Technology (Shenzhen) Co., Ltd.) (“Springpower”).

#### **Corporate Information**

We were incorporated in the state of Delaware on January 3, 2006. We were originally organized as a “blank check” shell company to investigate and acquire a target company or business seeking the perceived advantages of being a publicly held corporation. On November 2, 2007, we closed a share exchange transaction, pursuant to which we (i) became the 100% parent of HKHT and its wholly-owned subsidiary, Shenzhen Highpower, (ii) assumed the operations of HKHT and its subsidiary and (iii) changed our name from SRKP 11, Inc. to Hong Kong Highpower Technology, Inc. HKHT was incorporated in Hong Kong in 2003 under the Companies Ordinance of Hong Kong. Shenzhen Highpower was founded in 2001. HKHT formed HZ Highpower and Springpower in 2008. HZ Highpower has not yet commenced business operations.

In addition, on November 2, 2007, concurrently with the close of the share exchange transaction, we conducted a private placement transaction (the “Private Placement”). Pursuant to subscription agreements entered into with the investors, we sold an aggregate of 2,836,364 shares of Common Stock at \$1.10 per share. As a result, we received gross proceeds in the amount of \$3.12 million.

Through Shenzhen Highpower, we manufacture Nickel Metal Hydride (“Ni-MH”) rechargeable batteries for both consumer and industrial applications. We have developed significant expertise in Ni-MH battery technology and large-scale manufacturing that enables us to improve the quality of our battery products, reduce costs, and keep pace with evolving industry standards. In 2008, we commenced manufacturing Lithium-ion (“Li-ion”) rechargeable batteries through Springpower. Our automated machinery allows us to process key aspects of the manufacturing process to ensure high uniformity and precision, while leaving the non-key aspects of the manufacturing process to manual labor.

#### **Industry**

##### *General*

Rapid advancements in electronic technology have expanded the number of battery-powered devices in recent years. As these devices have come to feature more sophisticated functions, more compact sizes and lighter weights, the sources of power that operate these products have been required to deliver increasingly higher levels of energy. This has stimulated consumer demand for higher-energy batteries capable of delivering longer service between recharges or battery replacement. In contrast to non-rechargeable batteries, after a rechargeable battery is discharged, it can be recharged and reused many times. Rechargeable batteries generally can be used in many non-rechargeable battery applications, as well as high energy drain applications such as electric toys, power tools, portable computers and other electronics, medical devices, and many other consumer products.

High energy density and long achievable cycle life are important characteristics of rechargeable battery technologies. Energy density refers to the total electrical energy per unit volume stored in a battery. High energy density batteries generally are longer lasting power sources providing longer operating time and necessitating fewer battery recharges. Greater energy density will permit the use of batteries of a given weight or volume for a longer time period. Long cycle life is a preferred feature of a rechargeable battery because it allows the user to charge and recharge many times before noticing a difference in performance. Long achievable cycle life, particularly in combination with high energy density, is desirable for applications requiring frequent battery recharges.

The initial technology for rechargeable batteries was nickel cadmium (“Ni-Cad”). Ni-Cad batteries are offered in a variety of sizes and shapes but suffer from low energy density and low cycle life. In addition, disposal of Ni-Cad batteries poses environmental issues due to the high toxicity level of cadmium. To meet the demand for higher performing rechargeable batteries, nickel-metal hydride (“Ni-MH”) batteries were developed. Electrically, Ni-MH batteries are similar to the Ni-Cad counterparts but utilize a hydrogen-absorbing alloy instead of cadmium. High capacity Ni-MH batteries can replace Ni-Cad batteries in many devices because they operate on the same voltage and possess similar power and fast charge capabilities, while offering the advantage of greater energy density. In devices such as power tools, electric toys, personal portable electronic devices and electric vehicles, Ni-MH batteries optimize equipment performance. Ni-MH batteries have several advantages including:

**High capacity** - Because of the use of hydrogen as a cathode material, Ni-MH batteries have up to a 40 percent longer service life than ordinary Ni-Cad batteries of equivalent size.

**Long cycle life** - Up to 1,000 charge/discharge cycles.

**No memory effect** - Ni-Cad batteries suffer from a memory effect - when charging, the user must ensure that they are totally flat first, otherwise they 'remember' how much charge they used to have and die much quicker. Ni-MH batteries have a negligible memory effect, making charging quicker and more convenient.

**Performs at extreme temperatures** - Capable of operation on discharge from -20°C to 50°C (-4°F to 122°F) and charge from 0°C to 45°C (32°F to 113°F).

**Environmentally friendly** - Zero percent cadmium or other toxic chemicals such as mercury.

**Cost efficiency** - Rechargeable Ni-MH batteries are substantially less expensive than rechargeable lithium-ion batteries.

The first rechargeable Li-ion batteries were commercialized in 1991. Rechargeable Li-ion batteries are produced as cylindrical lithium-ion or prismatic lithium-polymer batteries. The energy density of Li-ion is typically twice that of the standard nickel-cadmium. Li-ion batteries are low maintenance, with no memory effect and no scheduled cycling required to prolong battery life. In addition, the self-discharge is less than half compared to nickel-cadmium, making lithium-ion well suited for modern applications, such as power tools, electric bicycles, laptops, LED lights, portable medical devices, digital cameras, and MP3 players.

Despite its overall advantages, Li-ion technology has limitations that include fragility, aging, capacity deterioration and higher manufacturing cost. Manufacturers are constantly working to improve Li-ion technology with new and enhanced chemical combinations. Li-ion batteries have several advantages including:

**High capacity**— Up to 100% higher energy density compared to standard nickel-cadmium batteries.

**Low self-discharge**— Self-discharge can be less than half that of nickel-based batteries.

**Low maintenance** — No periodic discharge is needed and there is no memory effect. Specialty cells can provide very high current to applications such as power tools.

**Flexible form factor**— Prismatic lithium polymer batteries can be produced in a wide variety of form factors for different products and applications.

Li-ion batteries also have several limitations:

Requires protection circuit to maintain voltage and current within safe limits.

Subject to aging when not in use - storage in a cool place at 40% charge reduces the aging effect.

Transportation restrictions - shipment of larger quantities may be subject to regulatory control.

Manufacturing cost is approximately 40% greater than nickel-cadmium.

### **China**

China's market share of battery production is expected to increase. China has a number of benefits in battery manufacturing, which are expected to drive this growth:

- **Low Costs.** China continues to have a significant low cost of labor as well as easy access to raw materials and land.
- **Proximity to electronics supply chain.** Electronics manufacturing in general continues to shift to China, giving China-based manufacturers a further cost and cycle time advantage.
- **Proximity to end-markets.** China has focused in recent years on building its research, development and engineering skill base in all aspects of higher end manufacturing, including batteries.

### **Competitive Strengths**

We believe the following competitive strengths contribute to our success and differentiate us from our competitors:

#### ***Experienced management team***

Our senior management team has extensive business and industry experience. Our principal stockholder and Chairman, Mr. Dang Yu Pan, has over 10 years of experience in China's battery industry. Additionally, other members of our senior management team have significant experience with respect to other key aspects of our operations, including product design, manufacturing, and sales and marketing.

#### ***Market position***

Since our inception, we have primarily focused on the research, development and manufacture of Ni-MH battery cells. We have developed significant expertise in Ni-MH battery technology and large-scale manufacturing that enables us to improve the quality of our products, reduce costs, and keep pace with evolving industry standards. Our Ni-MH rechargeable batteries have been developed to respond to a number of specific market requirements such as recyclability, high power, high energy density, long life, low cost and other important characteristics for consumer and OEM applications. They are suitable for almost all applications where high currents and deep discharges are required. Our wholly-owned subsidiary, Springpower Technology (Shenzhen) Co, Ltd., is a company that specializes in the research, manufacturing and marketing Lithium-ion rechargeable batteries. Our Li-ion manufacturing operations started in 2008, and although we are making progress in our Lithium-ion operations, these operations remain a small part of our overall company.

#### ***Well-established distribution channels***

We sell our products to original equipment manufacturers and a well-established network of distributors and resellers, allowing us to penetrate customer markets worldwide. Our relationship with many of our distributors extends from our inception in 2001. We also continue to screen and identify our strongest customers in each distribution channel and to focus our sales efforts towards the largest and fastest growing distributors and resellers.

#### ***Proven product manufacturing capabilities***

We selectively use automation in our manufacturing process to ensure a high uniformity and precision in our products while maintaining our cost-competitiveness. We use automated machinery in key stages of the manufacturing process while using manual labor for other stages to take advantage of the availability of low-cost, skilled labor in China. We have received several accreditations, including The International Organization for Standardization (ISO) 9001: 2000, ISO 14001, Conformity Europe (CE) and Underwriters Laboratories Inc. (UL), attesting to our quality management requirements, manufacturing safety, controls, procedures and environmental performance.

### ***Customer service expertise***

We work closely with our major customers in order to ensure high levels of customer satisfaction. To provide superior service and foster customer trust and loyalty, we offer flexible delivery methods and product feedback opportunities to our customers. Our sales representatives and marketing personnel undergo extensive training, providing them with the skills necessary to answer product and service-related questions, proactively educate potential customers about our products, and promptly resolve customer inquiries.

### **Our Strategy**

Our goal is to become a global leader in the development and manufacture of rechargeable battery products. We intend to achieve this goal by implementing the following strategies:

#### ***Continue to pursue cost-effective opportunities***

Our operating model, coupled with our modern manufacturing processes, has resulted in economies of scale, a low cost structure, and an ability to respond rapidly to customer demands. We intend to achieve greater cost-effectiveness by expanding our production capacity, increasing our productivity and efficiency in the manufacturing process and seeking to reducing the per unit cost of production through the use of advanced technologies.

#### ***Aggressively pursue distribution channels***

We intend to broaden the scope of our distribution arrangements to increase sales penetration in targeted markets. We intend to select additional distributors based on their access to markets and retail outlets that are candidates for our products. In addition, we intend to expand our international sales presence and diversify our revenue sources by taking efforts to increase the percentage of our net revenues attributable to sales to emerging new markets.

#### ***Expand existing and new product offerings***

Since the commencement of our battery operations in 2001, we have expanded our product offerings to multiple product lines, which include in each product line batteries of varying sizes, capacities and voltages. We intend to expand our existing lines of Ni-MH batteries for use in other applications, such as hybrid-electric cars, and devote additional resources to the development of our new line of rechargeable Li-ion batteries for higher-end, high-performance applications, such as laptop batteries.

#### ***Enhance marketing efforts to increase brand awareness***

We continue to devote our efforts towards brand development and utilize marketing concepts in an attempt to enhance the marketability of our products.

### **Products**

Our Ni-MH rechargeable batteries are versatile solutions for many diverse applications due to their long life, environmentally friendly materials, high power and energy, low cost and safe applications. Developed to meet the requirement for increasingly higher levels of energy demanded by today's electronic products, our Ni-MH rechargeable batteries can offer up to increased capacity and higher energy density over similarly sized standard Ni-Cad rechargeable batteries. As a result, users can expect a longer time between charges and longer running time. Our Ni-MH rechargeable batteries are available in both cylindrical and prismatic shapes.

In 2009, we completed the construction and build-out of several production lines for the development and manufacturing of a range of Li-ion rechargeable batteries and products. We produce two major series of Li-ion batteries & Li-polymer batteries with hundreds of different models for each series. Currently, we produce in excess of 800,000 Li-ion battery units per month.



We produce an extensive line of batteries, falling into two main categories:

**Consumer Batteries** – Relative to ordinary Ni-Cad rechargeable batteries, as well as their non-rechargeable counterparts, our Ni-MH and Li-ion batteries offer higher power capacity allowing for longer working time and shortened charging time during equivalent working periods. We produce A, AA and AAA sized batteries in blister packing as well as chargers and battery packs.

**Industrial Batteries** – These batteries are designed for electric bikes, power tools and electric toys. They are specifically designed for high-drain discharge applications, possessing low internal resistance, more power, and longer discharging time.

We also recycle batteries and resell the recycled materials to some of our customers. We are currently testing this market and anticipate expanding our battery recycling operations in the future.

Net sales for each of our product categories as a percentage of net sales is set forth below:

	Year Ended December 31,		
	2009	2008	2007
Consumer Batteries	79%	80%	80%
Industrial Batteries	20%	19%	19%
Materials	1%	1%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

### Supply of Raw Materials

The cost of the raw materials used in our rechargeable batteries is a key factor in the pricing of our products. We purchase materials in volume which allows us the ability to negotiate better pricing with our suppliers. Our purchasing department locates eligible suppliers of raw materials striving to use only those suppliers who have previously demonstrated quality control and reliability.

Currently, we purchase our raw materials, consisting primarily of metal materials including nickel oxide, nickel foam, metal hydride alloy and other battery components, such as membranes, from suppliers located in China and Japan. For our Li-ion batteries, we purchase raw materials consisting primarily of LiCoO<sub>2</sub>, graphite, electrolyte and tab. We believe that the raw materials and components used in manufacturing our rechargeable batteries are available from enough sources to be able to satisfy our manufacturing needs; however, some of our materials, such as nickel, are available from a limited number of suppliers. Our top three suppliers of nickel account for 50% of our nickel supply. Our top three suppliers of lithium account for approximately 30% of our lithium supply. Presently, our relationships with our current suppliers are generally good and we expect that our suppliers will be able to meet the anticipated demand for our products in the future.

At times, the pricing and availability of raw materials can be volatile, attributable to numerous factors beyond the Company's control, including general economic conditions, currency exchange rates, industry cycles, production levels or a supplier's tight supply. To the extent that we experience cost increases we may seek to pass such cost increases on to our customers, but cannot provide any assurance that we will be able to do so successfully or that our business, results of operations and financial condition would not be adversely affected by increased volatility of the cost and availability of raw materials.

### Quality Control

We consider quality control an important element of our business practices. We have stringent quality control systems that are implemented by more than 100 company-trained staff members to ensure quality control over each phase of the production process, from the purchase of raw materials through each step in the manufacturing process. Supported by advanced equipment, we utilize a scientific management system and precision inspection measurement, capable of supplying stable, high-quality rechargeable batteries. Our quality control department executes the following functions:

- setting internal controls and regulations for semi-finished and finished products;
- testing samples of raw materials from suppliers;
- implementing sampling systems and sample files;
- maintaining quality of equipment and instruments; and
- articulating the responsibilities of quality control staff.

We monitor quality and reliability in accordance with the requirements of QSR, or Quality System Review, and ISO 9001 systems. We have received European Union's CE attestation, UL authentication, ISO 9001:2000 and ISO 14001 certification. We have passed stringent quality reviews and thus obtained OEM qualifications from various domestic cellular phone brand names. With our strong technological capabilities and use of automated equipment for core aspects of the manufacturing process, we believe our product quality meets or even exceeds in certain key aspects international industry standards.

### **Manufacturing**

The manufacture of rechargeable batteries requires coordinated use of machinery and raw materials at various stages of manufacturing. We have a large-scale production base that includes a 484,000 square feet factory, a dedicated design, sales and marketing team, and approximately 2,247 company-trained employees. We use automated machinery to process key aspects of the manufacturing process to ensure high uniformity and precision, while leaving the non-key aspects of the manufacturing process to manual labor. We intend to further improve our automated production lines and strive to continue investing in our manufacturing infrastructure to further increase our manufacturing capacity, helping us to control the per unit cost of our products.

The primary raw materials used in production of rechargeable batteries include electrode materials, electrolytes, foils, cases and caps and separators. The electrodes are manufactured using active materials, conductive agents and binder which are mixed with liquid. These mixtures are then uniformly coated onto the thin metal foil, then after drying, the electrodes are cut down to the designated sizes. The positive electrode and negative electrode are then wound together with a separator and inserted into a can, and electrolyte is filled. The sealing completes the battery cell assembly. Some of these cells are then integrated into packages which are customized into a wide variety of configurations to interface with different electronic devices.

In October 2008, we commenced construction of our new manufacturing facility in Huizhou, Guangdong Province. The new facility will eventually house all Ni-MH production for the Company. The new facility's production capacity will be approximately two to three times that of our current production facility in Shenzhen. The construction is progressing according to plan, the estimated completion date based on the current run rate is around 4<sup>th</sup> quarter 2010,

### **Major Customers**

During the years ended December 31, 2009 and 2008, approximately 47% and 57% of our net sales were generated from our five largest customers, respectively. The percentages of net sales disclosed for each of our major customers includes sales to groups of customers under common control or that could be deemed affiliates of such major customers. During the years ended December 31, 2009 and 2008, one major customer Energizer Battery Manufacturing, Inc. accounted for 20% and 23%, respectively, of our net revenues. No other customer accounted for more than 10% of net revenues during 2009 or 2008.

### **Sales and Marketing**

We have a broad sales network of approximately 102 salespersons in China and have one branch office in Hong Kong. Our sales staff in each of our offices targets key customers by arranging in-person sales presentations and providing post-sales services. Our sales staff works closely with our customers so that we can better address their needs and improve the quality and features of our products. We offer different price incentives to encourage large-volume and long-term customers.

Sales to our customers are based primarily on purchase orders we receive from time to time rather than firm, long-term purchase commitments from our customers. Uncertain economic conditions and our general lack of long-term purchase commitments with our customers make it difficult for us to predict revenue accurately over the longer term. Even in those cases where customers are contractually obligated to purchase products from us, we may elect not to enforce our contractual rights immediately because of the long-term nature of our customer relationships and for other business reasons, and instead may negotiate accommodations with customers regarding particular situations.

We target sales of our rechargeable batteries and charging systems through original equipment manufacturers (“OEMs”), as well as distributors and resellers focused on our target markets. We have contractual arrangements with distributors who market our products on a commission basis in particular areas. Although OEM agreements typically contain volume-based pricing based on expected volumes, typically prices are rarely adjusted retroactively if contract volumes are not achieved. We attempt to adjust future prices accordingly, but our ability to adjust prices is generally based on market conditions which we cannot control.

Net sales based on the location of our customers as a percentage of net sales is set forth below:

	Year Ended December 31,		
	2009	2008	2007
China and Hong Kong	47.0%	41.2%	39.5%
Europe	32.8	37.3	34.6
North America	14.1	14.5	17.5
Asia	5.6	6.4	8.1
South America, Africa and Others	0.5	0.6	0.3
Total	100.0%	100.0%	100.0%

\* Less than 1%.

While the largest portion of our sales are made to customers in China and Hong Kong, our products are distributed worldwide, with approximately 47.0% of our products distributed to Hong Kong and China, 32.8% to Europe, 14.1% to the United States, and 6.1% to other markets.

We engage in marketing activities such as attending industry-specific conferences and exhibitions to promote our products and brand name. We also advertise in industry journals and magazines and through the Internet to market our products. We believe these activities help to promote our products and brand name among key industry participants.

## Research and Development

To enhance our product quality, reduce cost, and keep pace with technological advances and evolving market trends, we have established an advanced research and development center. Our research and development center is not only focused on enhancing our Ni-MH-based technology by developing new products and improving the performance of our current products, but also seeks to develop alternative technologies such as the line of rechargeable Li-ion batteries we are currently developing for higher-end, high performance applications. Our research and development center is currently staffed with over 115 research and development technicians who overlook our techniques department, product development department, material analysis lab, and performance testing lab. These departments work together to research new material and techniques, test battery performance, inspect products and to test performance of machines used in the manufacturing process.

For years ended December 31, 2009 and 2008 we expended \$1,059,341 and \$340,929, respectively, in research and development.

### *Strategic Partnership with Freudenberg Nonwovens*

In 2009, we entered into a strategic R&D partnership with Freudenberg Nonwovens. Freudenberg will utilize our R&D Center research facilities in China to test their various separators. Freudenberg Nonwovens was the first to introduce nonwovens to the market over 70 years ago and is now the largest and most diverse manufacturer of nonwovens in the world today. Freudenberg’s battery separator, which is one of their nonwovens, has been ranked as number one in the battery separator industry. Separators are considered an integral material for Ni-MH rechargeable batteries. We strongly believe the relationship with Freudenberg Nonwovens will continue to improve our NiMH product quality, strengthen our R&D in nonwoven knowledge which can create mutual benefits in the NiMH battery development.

## Competition

We face competition from many other battery manufacturers, many of which have significantly greater name recognition and financial, technical, manufacturing, personnel and other resources than we have. We compete against other Ni-MH and Li-ion battery producers, as well as manufacturers of other rechargeable and non-rechargeable batteries. The main types of rechargeable batteries currently on the market include: lead-acid; nickel-cadmium; nickel metal hydride; liquid lithium-ion and lithium-ion polymer. Competition is typically based on design, quality, reliability, and performance. The technology behind Ni-MH rechargeable batteries has consistently improved over time and we continue to enhance our products to meet the competitive threats from its competitors. Our primary competitors in the Ni-MH battery market or other similar competing rechargeable battery products include SANYO Electric Co., Ltd. Global, Matsushita Industrial Co., Ltd. (Panasonic), BYD Company Ltd., GPI International, Ltd., and GS Yuasa Corporation. Our primary competitors in the Li-ion battery market or other similar competing rechargeable battery products include Desay Corp., Coslight Group, Tianjin Lishen Battery Co. Ltd., and ATL.

## Intellectual Property

We rely on a combination of patent and trade secret protection and other unpatented proprietary information to protect our intellectual property rights and to maintain and enhance our competitiveness in the battery industry. We currently hold nine patents in China and have two patent applications pending in China. We also have two registered trademarks in China, which include “HFR” and its Chinese equivalent.

Shenzhen Highpower is party to a license agreement with Ovonic Battery Company, Inc. (“Ovonic”) under which Ovonic granted Shenzhen Highpower (1) a royalty-bearing, non-exclusive license to use certain patents owned by Ovonic to manufacture Ni-MH batteries for portable consumer applications (“Consumer Batteries”) in the PRC and (2) a royalty-bearing, non-exclusive worldwide license to use certain patents owned by Ovonic to use, sell and distribute Consumer Batteries. The renewal agreement will remain in effect until the licensed patents under the agreement expire. Pursuant to the renewed agreement, Shenzhen Highpower will pay a license fee of up to \$1.0 million based on gross sales of Consumer Batteries.

We also rely on unpatented technologies to protect the proprietary nature of our product and manufacturing processes. We require that our management team and key employees enter into confidentiality agreements that require the employees to assign the rights to any inventions developed by them during the course of their employment with us. The confidentiality agreements include noncompetition and nonsolicitation provisions that remain effective during the course of employment and for periods following termination of employment, which vary depending on position and location of the employee.

## PRC Government Regulations

### *Environmental Regulations*

The major environmental regulations applicable to us include the PRC Environmental Protection Law, the PRC Law on the Prevention and Control of Water Pollution and its Implementation Rules, the PRC Law on the Prevention and Control of Air Pollution and its Implementation Rules, the PRC Law on the Prevention and Control of Solid Waste Pollution, and the PRC Law on the Prevention and Control of Noise Pollution. We aim to comply with environmental laws and regulations and have acquired an ISO14004:2004 Environment Systems Certification and QC080000 Hazardous Substance Process Management System.

We constructed our manufacturing facilities with the PRC’s environmental laws and requirements in mind. We currently outsource the disposal of solid waste to a third party-contractor. In late 2007, we renewed our environmental permit, which expired in September 2007, from the Shenzhen Environment Protection Bureau Longgang Bureau covering our manufacturing operations and providing for an annual output limit of Ni-MH rechargeable batteries. Our new permit, which expires on December 31, 2010, does not include one of our current premises at our manufacturing facility. Although we substantially exceeded the approved annual output limit of Ni-MH rechargeable batteries set forth in our old permit, we do not expect to exceed the approved annual output limit set forth in our new permit. If we fail to comply with the provisions of the renewed permit, we could be subject to fines, criminal charges or other sanctions by regulators, including the suspension or termination of our manufacturing operations. We have not been named as a defendant in any legal proceedings alleging violation of environmental laws. Other than the expiration of our environmental approval, we have no reasonable basis to believe that there is any threatened claim, action or legal proceedings against us that would have a material adverse effect on our business, financial condition or results of operations due to any non-compliance with environmental laws.

## *Patent Protection in China*

The PRC's intellectual property protection regime is consistent with those of other modern industrialized countries. The PRC has domestic laws for the protection of rights in copyrights, patents, trademarks and trade secrets. The PRC is also a signatory to most of the world's major intellectual property conventions, including:

- Convention establishing the World Intellectual Property Organization (WIPO Convention) (June 4, 1980);
- Paris Convention for the Protection of Industrial Property (March 19, 1885);
- Patent Cooperation Treaty (January 1, 1994); and
- The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) (November 11, 2001).

Patents in the PRC are governed by the China Patent Law and its Implementing Regulations, each of which went into effect in 1985. Amended versions of the China Patent Law and its Implementing Regulations came into effect in 2001 and 2003, respectively.

The PRC is signatory to the Paris Convention for the Protection of Industrial Property, in accordance with which any person who has duly filed an application for a patent in one signatory country shall enjoy, for the purposes of filing in the other countries, a right of priority during the period fixed in the convention (12 months for inventions and utility models, and 6 months for industrial designs).

The Patent Law covers three kinds of patents, i.e., patents for inventions, utility models and designs respectively. The Chinese patent system adopts the principle of first to file. This means that, where more than one person files a patent application for the same invention, a patent can only be granted to the person who first filed the application. Consistent with international practice, the PRC only allows the patenting of inventions or utility models that possess the characteristics of novelty, inventiveness and practical applicability. For a design to be patentable, it should not be identical with or similar to any design which, before the date of filing, has been publicly disclosed in publications in the country or abroad or has been publicly used in the country, and should not be in conflict with any prior right of another.

PRC law provides that anyone wishing to exploit the patent of another must conclude a written licensing contract with the patent holder and pay the patent holder a fee. One rather broad exception to this, however, is that, where a party possesses the means to exploit a patent but cannot obtain a license from the patent holder on reasonable terms and in reasonable period of time, the PRC State Intellectual Property Office, or SIPO, is authorized to grant a compulsory license. A compulsory license can also be granted where a national emergency or any extraordinary state of affairs occurs or where the public interest so requires. SIPO, however, has not granted any compulsory license up to now. The patent holder may appeal such decision within three months from receiving notification by filing a suit in a people's court.

PRC law defines patent infringement as the exploitation of a patent without the authorization of the patent holder. A patent holder who believes his patent is being infringed may file a civil suit or file a complaint with a PRC local Intellectual Property Administrative Authority, which may order the infringer to stop the infringing acts. Preliminary injunction may be issued by the People's Court upon the patentee's or the interested parties' request before instituting any legal proceedings or during the proceedings. Evidence preservation and property preservation measures are also available both before and during the litigation. Damages in the case of patent infringement is calculated as either the loss suffered by the patent holder arising from the infringement or the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be reasonably determined in an amount ranging from one to more times of the license fee under a contractual license. The infringing party may be also fined by Administration of Patent Management in an amount of up to three times the unlawful income earned by such infringing party. If there is no unlawful income so earned, the infringing party may be fined in an amount of up to RMB500,000, or approximately \$62,500.

## ***Tax***

Pursuant to the Provisional Regulation of China on Value Added Tax and their implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay VAT at a rate of 17.0% of the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayer. Further, when exporting goods, the exporter is entitled to a portion of or all the refund of VAT that it has already paid or borne. Our imported raw materials that are used for manufacturing export products and are deposited in bonded warehouses are exempt from import VAT.

## ***Foreign Currency Exchange***

Under the PRC foreign currency exchange regulations applicable to us, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loan, security investment and repatriation of investment, however, is still subject to the approval of the PRC State Administration of Foreign Exchange, or SAFE. Foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, the SAFE and the State Reform and Development Commission.

## ***Dividend Distributions***

Under applicable PRC regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a foreign-invested enterprise in China are required to set aside at least 10.0% of their after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reach 50.0% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation.

## **Employees**

At December 31, 2009, we had approximately 2,247 employees, all of which are employed full-time. There are no collective bargaining contracts covering any of our employees. We believe our relationship with our employees is satisfactory.

## ITEM 1A: RISK FACTORS

Any investment in our common stock involves a high degree of risk. Potential investors should carefully consider the material risks described below and all of the information contained in this Form 10-K before deciding whether to purchase any of our securities. Our business, financial condition or results of operations could be materially adversely affected by these risks if any of them actually occur. None of our securities are currently listed or quoted for trading on any national securities exchange or national quotation system. If and when our securities are traded, the trading price could decline due to any of these risks, and an investor may lose all or part of his investment. Some of these factors have affected our financial condition and operating results in the past or are currently affecting us. This report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced described below and elsewhere in this Form 10-K.

### RISKS RELATED TO OUR OPERATIONS

#### **Our limited operating history may not serve as an adequate basis to evaluate our future prospects and results of operations.**

We have a limited operating history. We were established in GuangZhou, China in 2001 and commenced operations in Shenzhen in 2002. Our limited operating history may not provide a meaningful basis for an investor to evaluate our business, financial performance and prospects. We may not be able to:

- maintain our leading position in the Ni-MH battery market;
- retain existing customers or acquire new customers;
- diversify our revenue sources by successfully developing and selling our products in the global battery market and other markets;
- keep up with evolving industry standards and market developments;
- respond to competitive market conditions;
- maintain adequate control of our expenses;
- manage our relationships with our suppliers;
- attract, train, retain and motivate qualified personnel; or
- protect our proprietary technologies

If we are unsuccessful in addressing any of these challenges, our business may be materially and adversely affected.

#### **Our business depends in large part on the growth in demand for portable electronic devices.**

Many of our battery products are used to power various portable electronic devices. Therefore, the demand for our batteries is substantially tied to the market demand for portable electronic devices. A growth in the demand for portable electronic devices will be essential to the expansion of our business. Our results of operations may be adversely affected by decreases in the general level of economic activity. Decreases in consumer spending that may result from the current global economic downturn may weaken demand for items that use our battery products. A decrease in the demand for portable electronic devices would likely have a material adverse effect on our results of operations. We are unable to predict the duration and severity of the current disruption in financial markets and the global adverse economic conditions and the effect such events might have on our business.

**Our success depends on the success of manufacturers of the end applications that use our battery products.**

Because our products are designed to be used in other products, our success depends on whether end application manufacturers will incorporate our batteries in their products. Although we strive to produce high quality battery products, there is no guarantee that end application manufacturers will accept our products. Our failure to gain acceptance of our products from these manufacturers could result in a material adverse effect on our results of operations.

Additionally, even if a manufacturer decides to use our batteries, the manufacturer may not be able to market and sell its products successfully. The manufacturer's inability to market and sell its products successfully could materially and adversely affect our business and prospects because this manufacturer may not order new products from us. Therefore, our business, financial condition, results of operations and future success would be materially and adversely affected.

**We are and will continue to be subject to rapidly declining average selling prices, which may harm our results of operations.**

Portable consumer electronic devices, such as cellular phones, DVD players, and laptop computers are subject to rapid declines in average selling prices due to rapidly evolving technologies, industry standards and consumer preferences. Therefore, electronic device manufacturers expect suppliers, such as our company, to cut their costs and lower the price of their products to lessen the negative impact on the electronic device manufacturer's own profit margins. As a result, we have previously reduced the price of some of our battery products and expect to continue to face market-driven downward pricing pressures in the future. Our results of operations will suffer if we are unable to offset any declines in the average selling prices of our products by developing new or enhanced products with higher selling prices or gross profit margins, increasing our sales volumes or reducing our production costs.

**Our success is highly dependent on continually developing new and advanced products, technologies, and processes and failure to do so may cause us to lose our competitiveness in the battery industry and may cause our profits to decline.**

To remain competitive in the battery industry, it is important to continually develop new and advanced products, technologies, and processes. There is no assurance that competitors' new products, technologies, and processes will not render our existing products obsolete or non-competitive. Alternately, changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of our products obsolete or less attractive. Our competitiveness in the battery market therefore relies upon our ability to enhance our current products, introduce new products, and develop and implement new technologies and processes. We predominately manufacture and market Ni-MH batteries, and to a lesser extent, Li-ion and Li-polymer batteries. If our competitors develop alternative products with more enhanced features than our products, our financial condition and results of operations would be materially and adversely affected.

The research and development of new products and technologies is costly and time consuming, and there are no assurances that our research and development of new products will either be successful or completed within anticipated timeframes, if at all. Our failure to technologically evolve and/or develop new or enhanced products may cause us to lose competitiveness in the battery market and may cause our profits to decline. In addition, in order to compete effectively in the battery industry, we must be able to launch new products to meet our customers' demands in a timely manner. However, we cannot provide assurance that we will be able to install and certify any equipment needed to produce new products in a timely manner, or that the transitioning of our manufacturing facility and resources to full production under any new product programs will not impact production rates or other operational efficiency measures at our manufacturing facility. In addition, new product introductions and applications are risky, and may suffer from a lack of market acceptance, delays in related product development and failure of new products to operate properly. Any failure by us successfully to launch new products, or a failure by our customers to accept such products, could adversely affect our results.

**We have historically depended on a limited number of customers for a significant portion of our revenues and this dependence is likely to continue.**

We have historically depended on a limited number of customers for a significant portion of our net sales. Our top five customers accounted for approximately 47%, 57% and 56% of our net sales for the years ended December 31, 2009, 2008 and 2007, respectively. One customer, Energizer Battery Manufacturing, Inc., accounted for 20% and 23% of our net revenues for the years ended December 31, 2009 and 2008, respectively. We anticipate that a limited number of customers will continue to contribute to a significant portion of our net sales in the future. Maintaining the relationships with these significant customers is vital to the expansion and success of our business, as the loss of a major customer could expose us to risk of substantial losses. Our sales and revenue could decline and our results of operations could be materially adversely affected if one or more of these significant customers stops or reduces its purchasing of our products, or if we fail to expand our customer base for our products.



**Significant order cancellations, reductions or delays by our customers could materially adversely affect our business.**

Our sales are typically made pursuant to individual purchase orders, and we generally do not have long-term supply arrangements with our customers, but instead work with our customers to develop nonbinding forecasts of future requirements. Based on these forecasts, we make commitments regarding the level of business that we will seek and accept, the timing of production schedules and the levels and utilization of personnel and other resources. A variety of conditions, both specific to each customer and generally affecting each customer's industry, may cause customers to cancel, reduce or delay orders that were either previously made or anticipated. Generally, customers may cancel, reduce or delay purchase orders and commitments without penalty, except for payment for services rendered or products completed and, in certain circumstances, payment for materials purchased and charges associated with such cancellation, reduction or delay. Significant or numerous order cancellations, reductions or delays by our customers could have a material adverse effect on our business, financial condition or results of operations.

**Substantial defaults by our customers on accounts receivable or the loss of significant customers could have a material adverse effect on our business.**

A substantial portion of our working capital consists of accounts receivable from customers. Two customer represented an aggregate of 42% of our accounts receivable as of December 31, 2009. If customers responsible for a significant amount of accounts receivable were to become insolvent or otherwise unable to pay for products and services, or to make payments in a timely manner, our business, results of operations or financial condition could be materially adversely affected. An economic or industry downturn could materially adversely affect the servicing of these accounts receivable, which could result in longer payment cycles, increased collection costs and defaults in excess of management's expectations. A significant deterioration in our ability to collect on accounts receivable could also impact the cost or availability of financing available to us.

**Certain disruptions in supply of and changes in the competitive environment for raw materials integral to our products may adversely affect our profitability.**

We use a broad range of materials and supplies, including metals, chemicals and other electronic components in our products. A significant disruption in the supply of these materials could decrease production and shipping levels, materially increase our operating costs and materially adversely affect our profit margins. Shortages of materials or interruptions in transportation systems, labor strikes, work stoppages, war, acts of terrorism or other interruptions to or difficulties in the employment of labor or transportation in the markets in which we purchase materials, components and supplies for the production of our products, in each case may adversely affect our ability to maintain production of our products and sustain profitability. If we were to experience a significant or prolonged shortage of critical components from any of our suppliers and could not procure the components from other sources, we would be unable to meet our production schedules for some of our key products and to ship such products to our customers in timely fashion, which would adversely affect our sales, margins and customer relations.

**Our industry is subject to supply shortages and any delay or inability to obtain product components may have a material adverse effect on our business.**

Our industry is subject to supply shortages, which could limit the amount of supply available of certain required battery components. Any delay or inability to obtain supplies may have a material adverse effect on our business. During prior periods, there have been shortages of components in the battery industry and the availability of raw materials has been limited by some of our suppliers. We cannot assure investors that any future shortages or allocations would not have such an effect on our business. A future shortage can be caused by and result from many situations and circumstances that are out of our control, and such shortage could limit the amount of supply available of certain required materials and increase prices affecting our profitability.

**Our future operating results may be affected by fluctuations in costs of raw materials, such as nickel.**

Our principal raw material is nickel, which is available from a limited number of suppliers in China. The price of nickel was volatile during 2009 and could be volatile again. The price of nickel rose 59% from January 2009 to December 2009. The prices of nickel and other raw materials used to make our batteries increase and decrease due to factors beyond our control, including general economic conditions, domestic and worldwide demand, labor costs or problems, competition, import duties, tariffs, energy costs, currency exchange rates and those other factors described under "Certain disruptions in supply of and changes in the competitive environment for raw materials integral to our products may adversely affect our profitability." In an environment of increasing prices for nickel and other raw materials, competitive conditions may impact how much of the price increases we can pass on to our customers and to the extent we are unable to pass on future price increases in our raw materials to our customers, our financial results could be adversely affected.

**Our operations would be materially adversely affected if third-party carriers were unable to transport our products on a timely basis.**

All of our products are shipped through third party carriers. If a strike or other event prevented or disrupted these carriers from transporting our products, other carriers may be unavailable or may not have the capacity to deliver our products to our customers. If adequate third party sources to ship our products were unavailable at any time, our business would be materially adversely affected.

**We may not be able to increase our manufacturing output in order to maintain our competitiveness in the battery industry.**

We believe that our ability to provide cost-effective products represents a significant competitive advantage over our competitors. In order to continue providing such cost-effective products, we must maximize the efficiency of our production processes and increase our manufacturing output to a level that will enable us to reduce the per-unit production cost of our products. Our ability to increase our manufacturing output is subject to certain significant limitations, including:

- our ability raise capital to acquire additional raw materials and expand our manufacturing facilities;
- delays and cost overruns, due to increases in raw material prices and problems with equipment vendors;
- delays or denial of required approvals and certifications by relevant government authorities;
- diversion of significant management attention and other resources; and
- failure to execute our expansion plan effectively.

If we are not able to increase our manufacturing output and reduce our per-unit production costs, we may be unable to maintain our competitive position in the battery industry. Moreover, even if we expand our manufacturing output, we may not be able to generate sufficient customer demand for our products to support our increased production output.

**The market for our products and services is very competitive and, if we cannot effectively compete, our business will be harmed.**

The market for our products and services is very competitive and subject to rapid technological change. Many of our competitors are larger and have significantly greater assets, name recognition and financial, personnel and other resources than we have. As a result, our competitors may be in a stronger position to respond quickly to potential acquisitions and other market opportunities, new or emerging technologies and changes in customer requirements. We cannot assure you that we will be able to maintain or increase our market share against the emergence of these or other sources of competition. Failure to maintain and enhance our competitive position could materially adversely affect our business and prospects.

**Our business may be adversely affected by the global economic and construction industry downturn, in addition to the continuing uncertainties in the financial markets.**

The global economy is currently in a pronounced economic downturn. Global financial markets are continuing to experience disruptions, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability. Given these uncertainties, there is no assurance that there will not be further deterioration in the global economy, the global financial markets and consumer confidence. If economic conditions deteriorate further, our business and results of operations could be materially and adversely affected.

Additionally, sales of consumer items such as portable electronic devices, has slowed and there has been adverse changes in employment levels, job growth, consumer confidence and interest rates. Our future results of operations may experience substantial fluctuations from period to period as a consequence of these factors, and such conditions and other factors affecting consumer spending may affect the timing of orders. Thus, any economic downturns generally would have a material adverse effect on our business, cash flows, financial condition and results of operations.

Additionally, the inability of our customers and suppliers to access capital efficiently, or at all, may have other adverse effects on our financial condition. For example, financial difficulties experienced by our customers or suppliers could result in product delays; increase accounts receivable defaults; and increase our inventory exposure. The inability of our customers to borrow money to fund purchases of our products reduces the demand for our products and services and may adversely affect our results from operations and cash flow. These risks may increase if our customers and suppliers do not adequately manage their business or do not properly disclose their financial condition to us.

Although we believe we have adequate liquidity and capital resources to fund our operations internally, in light of current market conditions, our inability to access the capital markets on favorable terms, or at all, may adversely affect our financial performance. The inability to obtain adequate financing from debt or capital sources could force us to self-fund strategic initiatives or even forego certain opportunities, which in turn could potentially harm our performance.

**Warranty claims, product liability claims and product recalls could harm our business, results of operations and financial condition.**

Our business inherently exposes us to potential warranty and product liability claims, in the event that our products fail to perform as expected or such failure of our products results, or is alleged to result, in bodily injury or property damage (or both). Such claims may arise despite our quality controls, proper testing and instruction for use of our products, either due to a defect during manufacturing or due to the individual's improper use of the product. In addition, if any of our designed products are or are alleged to be defective, then we may be required to participate in a recall of them.

Existing PRC laws and regulations do not require us to maintain third party liability insurance to cover product liability claims. Although we have obtained products liability insurance, if a warranty or product liability claim is brought against us, regardless of merit or eventual outcome, or a recall of one of our products is required, such claim or recall may result in damage to our reputation, breach of contracts with our customers, decreased demand for our products, costly litigation, additional product recalls, loss of revenue, and the inability to commercialize some products. Additionally, our insurance policy imposes a ceiling for maximum coverage and high deductibles and we may be unable to obtain sufficient amounts from our policy to cover a product liability claim. We may not be able to obtain any insurance coverage for certain types of product liability claims, as our policy excludes coverage of certain types of claims. In such cases, we may still incur substantial costs related to a product liability claim, which could adversely affect our results of operations.

**Manufacturing or use of our battery products may cause accidents, which could result in significant production interruption, delay or claims for substantial damages.**

Our batteries can pose certain safety risks, including the risk of fire. While we implement stringent safety procedures at all stages of battery production that minimize such risks, accidents may still occur. Any accident, regardless of where it occurs, may result in significant production interruption, delays or claims for substantial damages caused by personal injuries or property damages.

**Our labor costs are likely to increase as a result of changes in Chinese labor laws.**

We expect to experience an increase in our cost of labor due to recent changes in Chinese labor laws which are likely to increase costs further and impose restrictions on our relationship with our employees. In June 2007, the National People's Congress of the PRC enacted new labor law legislation called the Labor Contract Law and more strictly enforced existing labor laws. The new law, which became effective on January 1, 2008, amended and formalized workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. As a result of the new law, we have had to increase the salaries of our employees, provide additional benefits to our employees, and revise certain other of our labor practices. The increase in labor costs has increased our operating costs, which increase we have not always been able to pass through to our customers. In addition, under the new law, employees who either have worked for us for 10 years or more or who have had two consecutive fixed-term contracts must be given an "open-ended employment contract" that, in effect, constitutes a lifetime, permanent contract, which is terminable only in the event the employee materially breaches our rules and regulations or is in serious dereliction of his or her duties. Such non-cancelable employment contracts will substantially increase our employment related risks and limit our ability to downsize our workforce in the event of an economic downturn. No assurance can be given that we will not in the future be subject to labor strikes or that we will not have to make other payments to resolve future labor issues caused by the new laws. Furthermore, there can be no assurance that the labor laws will not change further or that their interpretation and implementation will vary, which may have a negative effect upon our business and results of operations.

**We cannot guarantee the protection of our intellectual property rights and if infringement of our intellectual property rights occurs, including counterfeiting of our products, our reputation and business may be adversely affected.**

To protect the reputation of our products, we have sought to file or register our intellectual property, as appropriate, in the PRC where we have our primary business presence. As of December 31, 2009, we have registered two trademarks as used on our battery products, one in English and in the other in its Chinese equivalent. Our products are currently sold under these trademarks in the PRC, and we plan to expand our products to other international markets. There is no assurance that there will not be any infringement of our brand name or other registered trademarks or counterfeiting of our products in the future, in China or elsewhere. Should any such infringement and/or counterfeiting occur, our reputation and business may be adversely affected. We may also incur significant expenses and substantial amounts of time and effort to enforce our trademark rights in the future. Such diversion of our resources may adversely affect our existing business and future expansion plans.

As of December 31, 2009, we held nine Chinese patents and had two Chinese patent applications pending. Additionally, we have licensed patented technology from Ovonic Battery Company, Inc. related to the manufacture of Ni-MH batteries. We believe that obtaining patents and enforcing other proprietary protections for our technologies and products have been and will continue to be very important in enabling us to compete effectively. However, there can be no assurance that our pending patent applications will issue, or that we will be able to obtain any new patents, in China or elsewhere, or that our or our licensors' patents and proprietary rights will not be challenged or circumvented, or that these patents will provide us with any meaningful competitive advantages. Furthermore, there can be no assurance that others will not independently develop similar products or will not design around any patents that have been or may be issued to us or our licensors. Failure to obtain patents in certain foreign countries may materially adversely affect our ability to compete effectively in those international markets. If a sufficiently broad patent were to be issued from a competing application in China or elsewhere, it could have a material adverse effect upon our intellectual property position in that particular market.

In addition, our rights to use the licensed proprietary technologies of our licensors depends on the timely and complete payment for such rights pursuant to license agreements between the parties; failure to adhere to the terms of these agreements could result in the loss of such rights and could materially and adversely affect our business.

**If our products are alleged to or found to conflict with patents that have been or may be granted to competitors or others, our reputation and business may be adversely affected.**

Rapid technological developments in the battery industry and the competitive nature of the battery products market make the patent position of battery manufacturers subject to numerous uncertainties related to complex legal and factual issues. Consequently, although we either own or hold licenses to certain patents in the PRC, and are currently processing several additional patent applications in the PRC, it is possible that no patents will issue from any pending applications or that claims allowed in any existing or future patents issued or licensed to us will be challenged, invalidated, or circumvented, or that any rights granted there under will not provide us adequate protection. As a result, we may be required to participate in interference or infringement proceedings to determine the priority of certain inventions or may be required to commence litigation to protect our rights, which could result in substantial costs. Further, other parties could bring legal actions against us claiming damages and seeking to enjoin manufacturing and marketing of our products for allegedly conflicting with patents held by them. Any such litigation could result in substantial cost to us and diversion of effort by our management and technical personnel. If any such actions are successful, in addition to any potential liability for damages, we could be required to obtain a license in order to continue to manufacture or market the affected products. There can be no assurance that we would prevail in any such action or that any license required under any such patent would be made available on acceptable terms, if at all. Failure to obtain needed patents, licenses or proprietary information held by others may have a material adverse effect on our business. In addition, if we were to become involved in such litigation, it could consume a substantial portion of our time and resources. Also, with respect to licensed technology, there can be no assurance that the licensor of the technology will have the resources, financial or otherwise, or desire to defend against any challenges to the rights of such licensor to its patents.

**We rely on trade secret protections through confidentiality agreements with our employees, customers and other parties; the breach of such agreements could adversely affect our business and results of operations.**

We rely on trade secrets, which we seek to protect, in part, through confidentiality and non-disclosure agreements with our employees, customers and other parties. There can be no assurance that these agreements will not be breached, that we would have adequate remedies for any such breach or that our trade secrets will not otherwise become known to or independently developed by competitors. To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to our proposed projects, disputes may arise as to the proprietary rights to such information that may not be resolved in our favor. We may be involved from time to time in litigation to determine the enforceability, scope and validity of our proprietary rights. Any such litigation could result in substantial cost and diversion of effort by our management and technical personnel.

**The failure to manage growth effectively could have an adverse effect on our employee efficiency, product quality, working capital levels, and results of operations.**

Any significant growth in the market for our products or our entry into new markets may require an expansion of our employee base for managerial, operational, financial, and other purposes. As of December 31, 2009, we had approximately 2,247 full time employees. During any growth, we may face problems related to our operational and financial systems and controls, including quality control and delivery and service capacities. We would also need to continue to expand, train and manage our employee base. Continued future growth will impose significant added responsibilities upon the members of management to identify, recruit, maintain, integrate, and motivate new employees.

Aside from increased difficulties in the management of human resources, we may also encounter working capital issues, as we will need increased liquidity to finance the purchase of raw materials and supplies, development of new products, and the hiring of additional employees. For effective growth management, we will be required to continue improving our operations, management, and financial systems and control. Our failure to manage growth effectively may lead to operational and financial inefficiencies that will have a negative effect on our profitability. We cannot assure investors that we will be able to timely and effectively meet that demand and maintain the quality standards required by our existing and potential customers.

**We are dependent on certain key personnel and loss of these key personnel could have a material adverse effect on our business, financial condition and results of operations.**

Our success is, to a certain extent, attributable to the management, sales and marketing, and operational and technical expertise of certain key personnel. Each of the named executive officers performs key functions in the operation of our business. The loss of a significant number of these employees could have a material adverse effect upon our business, financial condition, and results of operations.

**We are dependent on a technically trained workforce and an inability to retain or effectively recruit such employees could have a material adverse effect on our business, financial condition and results of operations.**

We must attract, recruit and retain a sizeable workforce of technically competent employees to develop and manufacture our products and provide service support. Our ability to implement effectively our business strategy will depend upon, among other factors, the successful recruitment and retention of additional highly skilled and experienced engineering and other technical and marketing personnel. There is significant competition for technologically qualified personnel in our business and we may not be successful in recruiting or retaining sufficient qualified personnel consistent with our operational needs.

**Our planned expansion into new and existing international markets poses additional risks and could fail, which could cost us valuable resources and affect our results of operations.**

We plan to expand sales of our products into new and existing international markets including developing and developed countries, such as Japan, Russia, India, and Brazil. These markets are untested for our products and we face risks in expanding the business overseas, which include differences in regulatory product testing requirements, intellectual property protection (including patents and trademarks), taxation policy, legal systems and rules, marketing costs, fluctuations in currency exchange rates and changes in political and economic conditions.

**Our expansion into the Li-ion battery business is subject to substantial risks, which could result in a material adverse effect on our results of operations.**

In September 2008, we completed the construction and build-out of two production lines for the development and manufacturing of a range of Li-ion rechargeable batteries and products. We have limited experience in the development and production of Li-ion batteries, and due to this inexperience, we may be unable to manufacture our Li-ion battery products in the time frame and amounts expected or be unable to successfully commercialize our Li-ion products. The lithium ion battery market is competitive and risky and we are unsure whether our Li-ion products will gain market acceptance. We are competing against numerous competitors with greater financial resources than us, and due to the difficulties of entry into these markets, we may be unsuccessful and not be able to complete in the Li-ion battery industry.

**Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, access to capital and cost of capital.**

The capital and credit markets have been experiencing extreme volatility and disruption, including, among other things, extreme volatility in securities prices, severely diminished liquidity and credit availability, ratings downgrades of certain investments and declining valuations of others. Governments have taken unprecedented actions intended to address extreme market conditions that have included severely restricted credit and declines in real estate values. In some cases, the markets have exerted downward pressure on availability of liquidity and credit capacity for certain issuers. While currently these conditions have not impaired our ability to utilize our current credit facilities and finance our operations, there can be no assurance that there will not be a further deterioration in financial markets and confidence in major economies such that our ability to access credit markets and finance our operations, including the financing of the construction of our new manufacturing facility, might be impaired. Without sufficient liquidity, we may be forced to curtail our operations and our planned expansion of our new Li-ion battery line and construction of our new manufacturing facility. Adverse market conditions may limit our ability to replace, in a timely manner, maturing liabilities and access the capital necessary to operate and grow our business. As such, we may be forced to delay raising capital or bear an unattractive cost of capital which could decrease our profitability and significantly reduce our financial flexibility. The current tightening of credit in financial markets could adversely affect the ability of our customers to obtain financing for purchases of our products and could result in a decrease in or cancellation of orders for our products. Our results of operations, financial condition, cash flows and capital position could be materially adversely affected by disruptions in the financial markets.

**Our quarterly results may fluctuate because of many factors and, as a result, investors should not rely on quarterly operating results as indicative of future results.**

Fluctuations in operating results or the failure of operating results to meet the expectations of public market analysts and investors may negatively impact the value of our securities. Quarterly operating results may fluctuate in the future due to a variety of factors that could affect revenues or expenses in any particular quarter. Fluctuations in quarterly operating results could cause the value of our securities to decline. Investors should not rely on quarter-to-quarter comparisons of results of operations as an indication of future performance. As a result of the factors listed below, it is possible that in future periods results of operations may be below the expectations of public market analysts and investors. This could cause the market price of our securities to decline. Factors that may affect our quarterly results include:

- vulnerability of our business to a general economic downturn in China;
- fluctuation and unpredictability of costs related to the raw material used to manufacture our products;
- seasonality of our business;
- changes in the laws of the PRC that affect our operations;
- competition from our competitors; and
- our ability to obtain necessary government certifications and/or licenses to conduct our business.

## **RISKS RELATED TO DOING BUSINESS IN CHINA**

**Substantially all of our assets are located in the PRC and substantially all of our revenues are derived from our operations in China, and changes in the political and economic policies of the PRC government could have a significant impact upon the 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.**

The PRC's legal system is a civil law system based on written statutes. 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, governmental approvals required for conducting business and investments, laws and regulations governing the battery industry, national security-related laws and regulations and export/import laws and regulations, as well as commercial, antitrust, patent, product liability, environmental laws and regulations, consumer protection, and financial and business taxation laws and regulations.

The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. 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.

Our principal operating subsidiary, Shenzhen Highpower Technology Co., Ltd. ("Shenzhen Highpower") is considered a foreign invested enterprise under PRC laws, and as a result is required to comply with PRC laws and regulations, including laws and regulations specifically governing the activities and conduct of foreign invested enterprises. 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, including, without limitation:

- levying fines;
- revoking our business license, other licenses or authorities;
- requiring that we restructure our ownership or operations; and
- requiring that we discontinue any portion or all of our business.

**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, Shenzhen Highpower, is a wholly foreign-owned enterprise, commonly known as a WFOE. A WFOE can only conduct business within its approved business scope, which ultimately appears on its business license. Our license permits us to design, manufacture, sell and market battery products throughout the PRC. Any amendment to the scope of our business requires further application and government approval. In order for us to expand our business beyond the scope of our license, it will be required to enter into a negotiation with the authorities for the approval to expand the scope of our business. We cannot assure investors that Shenzhen Highpower will be able to obtain the necessary government approval for any change or expansion of its business.

**We are subject to a variety of environmental laws and regulations related to our manufacturing operations. Our failure to comply with environmental laws and regulations may have a material adverse effect on our business and results of operations.**

We are subject to various environmental laws and regulations in China. We are subject to various environmental laws and regulations that require us to obtain environmental permits for our battery manufacturing operations. We have an environmental permit from the Shenzhen Environment Protection Bureau Longgang Bureau (the "Bureau") covering our manufacturing operations that expires on December 31, 2010. Historically, under a previous permit which expired in September 2007, we substantially exceeded the approved annual output limit of Ni-MH rechargeable batteries set forth in the permit. Although we do not currently expect to exceed the approved annual output limits under the new permit, we cannot guarantee that this will be the case. Additionally, our current permit does not cover one of our existing premises at our manufacturing facility. If we fail to comply with the provisions of our permit, we could be subject to fines, criminal charges or other sanctions by regulators, including the suspension or termination of our manufacturing operations.

To the extent we ship our products outside of the PRC, or to the extent our products are used in products sold outside of the PRC, they may be affected by the following: The transportation of non-rechargeable and rechargeable lithium batteries is regulated by the International Civil Aviation Organization (ICAO), and corresponding International Air Transport Association (IATA), Pipeline & Hazardous Materials Safety Administration (PHMSA), Dangerous Goods Regulations and the International Maritime Dangerous Goods Code (IMDG), and in the PRC by General Administration of Civil Aviation of China and Maritime Safety Administration of People's Republic of China. These regulations are based on the United Nations (UN) Recommendations on the Transport of Dangerous Goods Model Regulations and the UN Manual of Tests and Criteria. We currently ship our products pursuant to ICAO, IATA and PHMSA hazardous goods regulations. New regulations that pertain to all lithium battery manufacturers went into effect in 2003 and 2004, and additional regulations went into effect on October 1, 2009. The regulations require companies to meet certain testing, packaging, labeling and shipping specifications for safety reasons. We comply with all current PRC and international regulations for the shipment of our products, and will comply with any new regulations that are imposed. We have established our own testing facilities to ensure that we comply with these regulations. If we were unable to comply with the new regulations, however, or if regulations are introduced that limit our ability to transport our products to customers in a cost-effective manner, this could have a material adverse effect on our business, financial condition and results of operations.



We cannot assure you that at all times we will be in compliance with environmental laws and regulations or our environmental permits or that we will not be required to expend significant funds to comply with, or discharge liabilities arising under, environmental laws, regulations and permits. Additionally, these regulations may change in a manner that could have a material adverse effect on our business, results of operations and financial condition. We have made and will continue to make capital and other expenditures to comply with environmental requirements.

Furthermore, our failure to comply with applicable environmental laws and regulations worldwide could harm our business and results of operations. The manufacturing, assembling and testing of our products require the use of hazardous materials that are subject to a broad array of environmental, health and safety laws and regulations. Our failure to comply with any of these applicable laws or regulations could result in:

- regulatory penalties, fines and legal liabilities;
- suspension of production;
- alteration of our fabrication, assembly and test processes; and
- curtailment of our operations or sales.

In addition, our failure to manage the use, transportation, emission, discharge, storage, recycling or disposal of hazardous materials could subject us to increased costs or future liabilities. Existing and future environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify our product designs or incur other expenses associated with such laws and regulations. Many new materials that we are evaluating for use in our operations may be subject to regulation under existing or future environmental laws and regulations that may restrict our use of one or more of such materials in our manufacturing, assembly and test processes or products. Any of these restrictions could harm our business and results of operations by increasing our expenses or requiring us to alter our manufacturing processes.

**Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could restrict or limit our ability to operate, including our ability to pay dividends. Our failure to obtain the prior approval of the China Securities Regulatory Commission, or the CSRC, for any offering and the listing and trading of our common stock could have a material adverse effect on our business, operating results, reputation and trading price of our common stock.**

The PRC State Administration of Foreign Exchange, or “SAFE,” issued a public notice in November 2005, known as Circular 75, concerning the use of offshore holding companies in mergers and acquisitions in China. The public notice provides that if an offshore company controlled by PRC residents intends to acquire a PRC company, such acquisition will be subject to registration with the relevant foreign exchange authorities. The public notice also suggests that registration with the relevant foreign exchange authorities is required for any sale or transfer by the PRC residents of shares in an offshore holding company that owns an onshore company. The PRC residents must each submit a registration form to the local SAFE branch with respect to their ownership interests in the offshore company, and must also file an amendment to such registration if the offshore company experiences material events, such as changes in the share capital, share transfer, mergers and acquisitions, spin-off transactions or use of assets in China to guarantee offshore obligations. If any PRC resident stockholder of an offshore holding company fails to make the required SAFE registration and amended registration, the onshore PRC subsidiaries of that offshore company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore entity. Failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions. Most of our PRC resident stockholders, as defined in the SAFE notice, have not registered with the relevant branch of SAFE, as currently required, in connection with their equity interests in HKHT. Because of uncertainty in how the SAFE notice will be interpreted and enforced, we cannot be sure how it will affect our business operations or future plans. For example, Shenzhen Highpower’s ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with the SAFE notice by our PRC resident beneficial holders. Failure by our PRC resident beneficial holders could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit Shenzhen Highpower’s ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

On August 8, 2006, the PRC Ministry of Commerce (“MOFCOM”), joined by the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and SAFE, released a substantially amended version of the Provisions for Foreign Investors to Merge with or Acquire Domestic Enterprises (the “Revised M&A Regulations”), which took effect September 8, 2006. These new rules significantly revised China’s regulatory framework governing onshore-to-offshore restructurings and foreign acquisitions of domestic enterprises. These new rules signify greater PRC government attention to cross-border merger, acquisition and other investment activities, by confirming MOFCOM as a key regulator for issues related to mergers and acquisitions in China and requiring MOFCOM approval of a broad range of merger, acquisition and investment transactions. Further, the new rules establish reporting requirements for acquisition of control by foreigners of companies in key industries, and reinforce the ability of the Chinese government to monitor and prohibit foreign control transactions in key industries.

Among other things, the revised M&A Regulations include new provisions that purport to require that an offshore special purpose vehicle, or SPV, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals must obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings. However, the application of this PRC regulation remains unclear with no consensus currently existing among the leading PRC law firms regarding the scope and applicability of the CSRC approval requirement. Highpower’s PRC counsel, Zhong Lun Law Firm has advised us that because we completed our onshore-to-offshore restructuring before September 8, 2006, the effective date of the new regulation, it is not necessary for us to submit the application to the CSRC for its approval, and the listing and trading of our common stock does not require CSRC approval.

If the CSRC or another PRC regulatory agency subsequently determines that CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from an offering of securities into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our common stock. The CSRC or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, to halt any offering before settlement and delivery of the securities offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur.

Also, if later the CSRC requires that we obtain its approval, we may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of our common stock. Furthermore, published news reports in China recently indicated that the CSRC may have curtailed or suspended overseas listings for Chinese private companies. These news reports have created further uncertainty regarding the approach that the CSRC and other PRC regulators may take with respect to us.

It is uncertain how our business operations or future strategy will be affected by the interpretations and implementation of Circular 75 and the Revised M&A Regulations. It is anticipated that application of the new rules will be subject to significant administrative interpretation, and we will need to closely monitor how MOFCOM and other ministries apply the rules to ensure that our domestic and offshore activities continue to comply with PRC law. Given the uncertainties regarding interpretation and application of the new rules, we may need to expend significant time and resources to maintain compliance.

**If our land use rights are revoked, we would be forced to relocate operations.**

Under Chinese law land is owned by the state or rural collective economic organizations. The state issues to the land users the land use right certificate. Land use rights can be revoked and the land users forced to vacate at any time when redevelopment of the land is in the public interest. The public interest rationale is interpreted quite broadly and the process of land appropriation may be less than transparent. We acquired approximately 1.36 million square feet of land equity in HuiZhou, GuangDong China from the HuiZhou State-Owned Land Resource in 2007, upon which we began constructing our new manufacturing facility. Any loss of this land use right would require us to identify and relocate our manufacturing and other facilities which could have a material adverse effect on our financial conditions and results of operations.

**We will not be able to complete an acquisition of prospective acquisition targets in the PRC unless their financial statements can be reconciled to U.S. generally accepted accounting principles in a timely manner.**

Companies based in the PRC may not have properly kept financial books and records that may be reconciled with U.S. generally accepted accounting principles. If we attempt to acquire a significant PRC target company and/or its assets, we would be required to obtain or prepare financial statements of the target that are prepared in accordance with and reconciled to U.S. generally accepted accounting principles. Federal securities laws require that a business combination meeting certain financial significance tests require the public acquirer to prepare and file historical and/or pro forma financial statement disclosure with the SEC. These financial statements must be prepared in accordance with, or be reconciled to U.S. generally accepted accounting principles and the historical financial statements must be audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), or PCAOB. If a proposed acquisition target does not have financial statements that have been prepared in accordance with, or that can be reconciled to, U.S. generally accepted accounting principles and audited in accordance with the standards of the PCAOB, we will not be able to acquire that proposed acquisition target. These financial statement requirements may limit the pool of potential acquisition targets with which we may acquire and hinder our ability to expand our retail operations. Furthermore, if we consummate an acquisition and are unable to timely file audited financial statements and/or pro forma financial information required by the Exchange Act, such as Item 9.01 of Form 8-K, we will be ineligible to use the SEC's short-form registration statement on Form S-3 to raise capital, if we are otherwise eligible to use a Form S-3. If we are ineligible to use a Form S-3, the process of raising capital may be more expensive and time consuming and the terms of any offering transaction may not be as favorable as they would have been if we were eligible to use Form S-3.

**We face risks related to natural disasters, terrorist attacks or other events in China that may affect usage of public transportation, which could have a material adverse effect on our business and results of operations.**

Our business could be materially and adversely affected by natural disasters, terrorist attacks or other events in China. For example, in early 2008, parts of China suffered a wave of strong snow storms that severely impacted public transportation systems. In May 2008, Sichuan Province in China suffered a strong earthquake measuring approximately 8.0 on the Richter scale that caused widespread damage and casualties. The May 2008 Sichuan earthquake has had a material adverse effect on the general economic conditions in the areas affected by the earthquake. Any future natural disasters, terrorist attacks or other events in China could cause a reduction in usage of or other severe disruptions to, public transportation systems and could have a material adverse effect on our business and results of operations.

**We face uncertainty from China's Circular on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises' Share Transfer ("Circular 698") that was released in December 2009 with retroactive effect from January 1, 2008.**

The Chinese State Administration of Taxation (SAT) released a circular (Guoshuihan No. 698 – Circular 698) on December 15, 2009 that addresses the transfer of shares by nonresident companies. Circular 698, which is effective retroactively to January 1, 2008, may have a significant impact on many companies that use offshore holding companies to invest in China. Circular 698, which provides parties with a short period of time to comply its requirements, indirectly taxes foreign companies on gains derived from the indirect sale of a Chinese company. Where a foreign investor indirectly transfers equity interests in a Chinese resident enterprise by selling the shares in an offshore holding company, and the latter is located in a country or jurisdiction where the effective tax burden is less than 12.5% or where the offshore income of his, her, or its residents is not taxable, the foreign investor is required to provide the tax authority in charge of that Chinese resident enterprise with the relevant information within 30 days of the transfers. Moreover, where a foreign investor indirectly transfers equity interests in a Chinese resident enterprise through an abuse of form of organization and there are no reasonable commercial purposes such that the corporate income tax liability is avoided, the PRC tax authority will have the power to re-assess the nature of the equity transfer in accordance with PRC's "substance-over-form" principle and deny the existence of the offshore holding company that is used for tax planning purposes.

There is uncertainty as to the application of Circular 698. For example, while the term "indirectly transfer" is not defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax in the country or jurisdiction and to what extent and the process of the disclosure to the tax authority in charge of that Chinese resident enterprise. In addition, there are not any formal declarations with regard to how to decide "abuse of form of organization" and "reasonable commercial purpose," which can be utilized by us to balance if our company complies with the Circular 698. As a result, we may become at risk of being taxed under Circular 698 and we may be required to expend valuable resources to comply with Circular 698 or to establish that we should not be taxed under Circular 698, which could have a material adverse effect on our financial condition and results of operations.

**The foreign currency exchange rate between U.S. Dollars and Renminbi could adversely affect our financial condition.**

To the extent that we need to convert U.S. Dollars into Renminbi for our operational needs, our financial position and the price of our common stock may be adversely affected should the Renminbi appreciate against the U.S. Dollar at that time. Conversely, if we decide to convert our Renminbi into U.S. Dollars for the operational needs or paying dividends on our common stock, the dollar equivalent of our earnings from our subsidiaries in China would be reduced should the dollar appreciate against the Renminbi.

Until 1994, the Renminbi experienced a gradual but significant devaluation against most major currencies, including dollars, and there was a significant devaluation of the Renminbi on January 1, 1994 in connection with the replacement of the dual exchange rate system with a unified managed floating rate foreign exchange system. Since 1994, the value of the Renminbi relative to the U.S. Dollar has remained stable and has appreciated slightly against the U.S. Dollar. Countries, including the United States, have argued that the Renminbi is artificially undervalued due to China's current monetary policies and have pressured China to allow the Renminbi to float freely in world markets. In July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the dollar. Under the new policy the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of designated foreign currencies. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against the dollar.

**Because most of our sales are made in U.S. Dollars and most of our expenses are paid in RMB, devaluation of the U.S. Dollar could negatively impact our results of operations.**

The value of RMB is subject to changes in China's governmental policies and to international economic and political developments. In January, 1994, the PRC government implemented a unitary managed floating rate system. Under this system, the People's Bank of China, or PBOC, began publishing a daily base exchange rate with reference primarily to the supply and demand of RMB against the U.S. Dollar and other foreign currencies in the market during the previous day. Authorized banks and financial institutions are allowed to quote buy and sell rates for RMB within a specified band around the central bank's daily exchange rate. On July 21, 2005, PBOC announced an adjustment of the exchange rate of the U.S. Dollar to RMB from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. This modification resulted in an approximate 7.3% appreciation of the RMB against the U.S. Dollar from July 21, 2005 to May 2, 2007. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further fluctuations of the exchange rate of the U.S. Dollar against the RMB, including future devaluations. Because most of our net sales are made in U.S. Dollars and most of our expenses are paid in RMB, any future devaluation of the U.S. Dollar against the RMB could negatively impact our results of operations.

**Inflation in the PRC could negatively affect our profitability and growth.**

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. During the past decade, the rate of inflation in China has been as high as approximately 20% and China has experienced deflation as low as approximately minus 2%. According to the National Bureau of Statistics of China, the change in China's Consumer Price Index increased to 8.5% in April 2008. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on our profitability.

Furthermore, In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. In January 2010, the Chinese government took steps to tighten the availability of credit including ordering banks to increase the amount of reserves they hold and to reduce or limit their lending. The implementation of such policies may impede economic growth. In October 2004, the People's Bank of China, the PRC's central bank, raised interest rates for the first time in nearly a decade and indicated in a statement that the measure was prompted by inflationary concerns in the Chinese economy. In April 2006, the People's Bank of China raised the interest rate again. Repeated rises in interest rates by the central bank would likely slow economic activity in China which could, in turn, materially increase our costs and also reduce demand for our products and services.

**Because our funds are held in banks which do not provide insurance, the failure of any bank in which we deposit our funds could affect our ability to continue in business.**

Banks and other financial institutions in the PRC do not provide insurance for funds held on deposit. A significant portion of our assets are in the form of cash deposited with banks in the PRC, and in the event of a bank failure, we may not have access to our funds on deposit. Depending upon the amount of money we maintain in a bank that fails, our inability to have access to our cash could impair our operations, and, if we are not able to access funds to pay our suppliers, employees and other creditors, we may be unable to continue in business.

**Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.**

As our ultimate holding company is a Delaware corporation, we are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices may occur from time-to-time in the PRC. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

**If we make equity compensation grants to persons who are PRC citizens, they may be required to register with the State Administration of Foreign Exchange of the PRC, or SAFE. We may also face regulatory uncertainties that could restrict our ability to adopt an equity compensation plan for our directors and employees and other parties under PRC law.**

On April 6, 2007, SAFE issued the "Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Ownership Plan or Stock Option Plan of An Overseas Listed Company, also known as "Circular 78." It is not clear whether Circular 78 covers all forms of equity compensation plans or only those which provide for the granting of stock options. For any plans which are so covered and are adopted by a non-PRC listed company after April 6, 2007, Circular 78 requires all participants who are PRC citizens to register with and obtain approvals from SAFE prior to their participation in the plan. In addition, Circular 78 also requires PRC citizens to register with SAFE and make the necessary applications and filings if they participated in an overseas listed company's covered equity compensation plan prior to April 6, 2007. We intend to adopt an equity compensation plan in the future and make option grants to our officers and directors, most of whom are PRC citizens. Circular 78 may require our officers and directors who receive option grants and are PRC citizens to register with SAFE. We believe that the registration and approval requirements contemplated in Circular 78 will be burdensome and time consuming. If it is determined that any of our equity compensation plans are subject to Circular 78, failure to comply with such provisions may subject us and participants of our equity incentive plan who are PRC citizens to fines and legal sanctions and prevent us from being able to grant equity compensation to our PRC employees. In that case, our ability to compensate our employees and directors through equity compensation would be hindered and our business operations may be adversely affected.

**We have enjoyed certain preferential tax concessions and the loss of these preferential tax concessions may cause its tax liabilities to increase and its profitability to decline.**

Our operating subsidiary, Shenzhen Highpower, enjoyed preferential tax concessions in the PRC, which were only granted to high-technology enterprises operating in the Shenzhen Special Economic Zone. From 2005 to 2007, Shenzhen Highpower enjoyed a preferential income tax rate of 7.5% due to its status as a new business and high-tech enterprise. That status expired on December 31, 2007, when we then enjoyed a preferential tax rate of 15%. The expiration of the preferential tax treatment will increase our tax liabilities and reduce our profitability. Additionally, the PRC Enterprise Income Tax Law (the “EIT Law”) was enacted on March 16, 2007. Under the EIT Law, which became effective January 1, 2008, China adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and canceled several tax incentives enjoyed by foreign-invested enterprises. However, for foreign-invested enterprises established before the promulgation of the EIT Law, a five-year transition period is provided during which the tax rate gradually increased starting in 2008 and will be equal to the new 25% tax rate at the end of the transition period. We believe that our profitability will be negatively affected in the near future as a result of the new EIT Law. Any future increase in the enterprise income tax rate applicable to us or other adverse tax treatments, could increase our tax liabilities and reduce our net income.

**Under the New EIT Law, we and HKHT may be classified as “resident enterprises” of China for tax purpose, which may subject us and KHT to PRC income tax on taxable global income.**

Under the new PRC Enterprise Income Tax Law (the “New EIT Law”) and its implementing rules, both of which became effective on January 1, 2008. Under the New EIT Law, enterprises are classified as resident enterprises and non-resident enterprises. An enterprise established outside of China with its “de facto management bodies” located within China is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a Chinese domestic enterprise for enterprise income tax purposes. The implementing rules of the New EIT Law define de facto management body as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. Due to the short history of the New EIT law and lack of applicable legal precedents, it remains unclear how the PRC tax authorities will determine the PRC tax resident treatment of a foreign company such as us and HKHT. Both our and HKHT’s members of management are located in China. If the PRC tax authorities determine that we or HKHT is a “resident enterprise” for PRC enterprise income tax purposes, a number of PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income, including interest income on the proceeds from this offering, as well as PRC enterprise income tax reporting obligations. Second, the New EIT Law provides that dividend paid between “qualified resident enterprises” is exempted from enterprise income tax. A recent circular issued by the State Administration of Taxation regarding the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of China as “resident enterprises” clarified that dividends and other income paid by such “resident enterprises” will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC shareholders. It is unclear whether the dividends that we or HKHT receives from Shenzhen Highpower will constitute dividends between “qualified resident enterprises” and would therefore qualify for tax exemption, because the definition of qualified resident enterprises is unclear and the relevant PRC government authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. We are actively monitoring the possibility of “resident enterprise” treatment for the applicable tax years and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible. As a result of the New EIT Law, our historical operating results will not be indicative of our operating results for future periods and the value of our common stock may be adversely affected.

**Dividends payable by us to our foreign investors and any gain on the sale of our shares may be subject to taxes under PRC tax laws.**

If dividends payable to our shareholders are treated as income derived from sources within China, then the dividends that shareholders receive from us, and any gain on the sale or transfer of our shares, may be subject to taxes under PRC tax laws.

Under the New EIT Law and its implementing rules, PRC enterprise income tax at the rate of 10% is applicable to dividends payable by us to our investors that are non-resident enterprises so long as such non-resident enterprise investors do not have an establishment or place of business in China or, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China, to the extent that such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of our shares by such investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China and we are considered as a resident enterprise which is domiciled in China for tax purpose. Additionally, there is a possibility that the relevant PRC tax authorities may take the view that the purpose of us and HKHT is holding Shenzhen Highpower, and the capital gain derived by our overseas shareholders or investors from the share transfer is deemed China-sourced income, in which case such capital gain may be subject to a PRC withholding tax at the rate of up to 10%. If we are required under the New EIT Law to withhold PRC income tax on our dividends payable to our foreign shareholders or investors who are non-resident enterprises, or if you are required to pay PRC income tax on the transfer of our shares under the circumstances mentioned above, the value of your investment in our shares may be materially and adversely affected.

In January, 2009, the State Administration of Taxation promulgated the Provisional Measures for the Administration of Withholding of Enterprise Income Tax for Non-resident Enterprises (“Measures”), pursuant to which, the entities which have the direct obligation to make the following payment to a non-resident enterprise shall be the relevant tax withholders for such non-resident enterprise, and such payment includes: incomes from equity investment (including dividends and other return on investment), interests, rents, royalties, and incomes from assignment of property as well as other incomes subject to enterprise income tax received by non-resident enterprises in China. Further, the Measures provides that in case of equity transfer between two non-resident enterprises which occurs outside China, the non-resident enterprise which receives the equity transfer payment shall, by itself or engage an agent to, file tax declaration with the PRC tax authority located at place of the PRC company whose equity has been transferred, and the PRC company whose equity has been transferred shall assist the tax authorities to collect taxes from the relevant non-resident enterprise. However, it is unclear whether the Measures refer to the equity transfer by a non-resident enterprise which is a direct or an indirect shareholder of the said PRC company. Given these Measures, there is a possibility that we may have an obligation to withhold income tax in respect of the dividends paid to non-resident enterprise investors.

**Any recurrence of Severe Acute Respiratory Syndrome (SARS), Avian Flu, or another widespread public health problem, in the PRC could adversely affect our operations.**

A renewed outbreak of SARS, Avian Flu or another widespread public health problem in China, such as the H1N1 virus, where all of our manufacturing facilities are located and where the substantial portion of our sales occur, or the measures taken by the governments of affected countries against such potential outbreaks, could have a negative effect on our operations or those of our suppliers and customers. Our business is dependent upon its ability to continue to manufacture products. Such an outbreak could have an impact on our operations as a result of:

- quarantines or closures of some of our manufacturing facilities, which would severely disrupt our operations,
- the sickness or death of our key officers and employees, and
- a general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our operations.

**A downturn in the economy of the PRC may slow our growth and profitability.**

The growth of the Chinese economy has been uneven across geographic regions and economic sectors. There can be no assurance that growth of the Chinese economy will be steady or that any downturn will not have a negative effect on our business, especially if it results in either a decreased use of our products or in pressure on us to lower our prices.

**Because our business is located in the PRC, we may have difficulty establishing adequate management, legal and financial controls, which it is required to do in order to comply with U.S. securities laws.**

PRC companies have historically not adopted a Western style of management and financial reporting concepts and practices, which includes strong corporate governance, internal controls and, computer, financial and other control systems. Most of our middle and top management staff are not educated and trained in the Western system, and we may difficulty hiring new employees in the PRC with such training. In addition, we may have difficulty in hiring and retaining a sufficient number of qualified employees to work in the PRC. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards. Therefore, we may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act of 2002. This may result in significant deficiencies or material weaknesses in our internal controls which could impact the reliability of its financial statements and prevent us from complying with SEC rules and regulations and the requirements of the Sarbanes-Oxley Act of 2002. Any such deficiencies, weaknesses or lack of compliance could have a materially adverse effect on our business.

**Investors may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based upon U.S. laws, including the federal securities laws or other foreign laws against us or our management.**

Most of our current operations, including the manufacturing and distribution of our products, are conducted in China. Moreover, all of our directors and officers are nationals and residents of China or Hong Kong. All or substantially all of the assets of these persons are located outside the United States and in the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon these persons. In addition, uncertainty exists as to whether the courts of China would recognize or enforce judgments of U.S. courts obtained against us or such officers and/or directors predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in China against us or such persons predicated upon the securities laws of the United States or any state thereof.

**Contract drafting, interpretation and enforcement in China involves significant uncertainty.**

We have entered into numerous contracts governed by PRC law, many of which are material to our business. As compared with contracts in the United States, contracts governed by PRC law tend to contain less detail and are not as comprehensive in defining contracting parties' rights and obligations. As a result, contracts in China are more vulnerable to disputes and legal challenges. In addition, contract interpretation and enforcement in China is not as developed as in the United States, and the result of any contract dispute is subject to significant uncertainties. Therefore, we cannot assure you that we will not be subject to disputes under our material contracts, and if such disputes arise, we cannot assure you that we will prevail.

**We could be liable for damages for defects in our products pursuant to the Tort Liability Law of the PRC.**

The Tort Liability Law of the People's Republic of China, which was passed during the 12th Session of the Standing Committee of the 11th National People's Congress on December 26, 2009, states that manufacturers are liable for damages caused by defects in their products and sellers are liable for damages attributable to their fault. If the defects are caused by the fault of third parties such as the transporter or storekeeper, manufacturers and sellers are entitled to claim for compensation from these third parties after paying the compensation amount.

**RISKS RELATED TO OUR CAPITAL STRUCTURE**

**The price of our common stock is volatile and you might not be able to resell your securities at or above the price you have paid.**

Since our initial public offering and listing of our common stock in October 2007, the price at which our common stock had traded has been highly volatile, with a high and low sales price of \$1.23 and \$9.82, respectively, as through March 29, 2010. You might not be able to sell the shares of our common stock at or above the price you have paid. The stock market has experienced extreme volatility that often has been unrelated to the performance of its listed companies. Moreover, only a limited number of our shares are traded each day, which could increase the volatility of the price of our stock. These market fluctuations might cause our stock price to fall regardless of our performance. The market price of our common stock might fluctuate significantly in response to many factors, some of which are beyond our control, including the following:



- actual or anticipated fluctuations in our annual and quarterly results of operations;
- changes in securities analysts' expectations;
- variations in our operating results, which could cause us to fail to meet analysts' or investors' expectations;
- announcements by our competitors or us of significant new products, contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- conditions and trends in our industry;
- general market, economic, industry and political conditions;
- changes in market values of comparable companies;
- additions or departures of key personnel;
- stock market price and volume fluctuations attributable to inconsistent trading volume levels; and
- future sales of equity or debt securities, including sales which dilute existing investors.

**Shares eligible for future sale may adversely affect the market price of our common stock, as the future sale of a substantial amount of outstanding stock in the public marketplace could reduce the price of our common stock.**

In June 2008, we completed a public offering and sale of 603,750 shares of common stock, all of which are currently freely tradeable. We registered a total of 1,772,745 shares of our common stock issued in a Private Placement that was conducted in connection with the Share Exchange in November 2007 and a total of 817,479 shares of common stock held by certain of our stockholders immediately prior to the Share Exchange pursuant to a registration statement that was declared effective by the Securities and Exchange Commission in June 2008. In addition, we registered a total of 959,649 shares of common stock that are held by affiliates of Westpark Capital, Inc. who were stockholders of our company prior to the Share Exchange pursuant to a registration statement that was declared effective in August 2008. All of the shares included in an effective registration statement as described above may be freely sold and transferred.

Additionally, the former shareholders of HKHT and/or their designees may be eligible to sell all or some of our shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act ("Rule 144"), subject to certain limitations. In general, pursuant to Rule 144, a non-affiliate stockholder (or stockholders whose shares are aggregated) who has satisfied a six-month holding period, and provided that there is current public information available, may sell all of its securities. Rule 144 also permits the sale of securities, without any limitations, by a non-affiliate that has satisfied a one-year holding period. Any substantial sale of common stock pursuant to any resale prospectus or Rule 144 may have an adverse effect on the market price of our common stock by creating an excessive supply.

**A few principal stockholders have significant influence over us.**

Three of our stockholders beneficially own or control approximately 60.0% of our outstanding shares. If these stockholders were to act as a group, they would have a controlling influence in determining the outcome of any corporate transaction or other matters submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors, and other significant corporate actions. Such stockholders may also have the power to prevent or cause a change in control. In addition, without the consent of these three stockholders, we could be prevented from entering into transactions that could be beneficial to us. The interests of these three stockholders may differ from the interests of our other stockholders.

**If we fail to maintain effective internal controls over financial reporting, the price of our common stock may be adversely affected.**

We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. Any failure of these controls could also prevent us from maintaining accurate accounting records and discovering accounting errors and financial frauds. Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting, and attestation of this assessment by our independent registered public accountants. The attestation requirement of management's assessment by our independent registered public accountants will first apply to our annual report for the 2010 fiscal year. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. In addition, the attestation process by our independent registered public accountants is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. 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.

In addition, management's assessment of internal controls over financial reporting may identify weaknesses and conditions that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting, disclosure of management's assessment of our internal controls over financial reporting, or disclosure of our public accounting firm's attestation to or report on management's assessment of our internal controls over financial reporting may have an adverse impact on the price of our common stock.

**We may not be able to achieve the benefits we expect to result from the Share Exchange.**

On October 20, 2007, we entered into the Exchange Agreement with all of the shareholders of HKHT, pursuant to which we agreed to acquire 100% of the issued and outstanding securities of HKHT in exchange for shares of our common stock. On November 2, 2007, the Share Exchange closed, HKHT became our 100%-owned subsidiary and our sole business operations became that of HKHT. We also have a new Board of Directors and management consisting of persons from HKHT and changed our corporate name from SRKP 11, Inc. to Hong Kong Highpower Technology, Inc.

We may not realize the benefits that we hoped to receive as a result of the Share Exchange, which include:

- access to the capital markets of the United States;
- the increased market liquidity expected to result from exchanging stock in a private company for securities of a public company that may eventually be traded;
- the ability to use registered securities to make acquisition of assets or businesses;
- increased visibility in the financial community;
- enhanced access to the capital markets;
- improved transparency of operations; and
- perceived credibility and enhanced corporate image of being a publicly traded company.

There can be no assurance that any of the anticipated benefits of the Share Exchange will be realized in respect to our new business operations. In addition, the attention and effort devoted to achieving the benefits of the Share Exchange and attending to the obligations of being a public company, such as reporting requirements and securities regulations, could significantly divert management's attention from other important issues, which could materially and adversely affect our operating results or stock price in the future.

**Compliance with changing regulation of corporate governance and public disclosure will result in additional expenses.**

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and related SEC regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the public markets and public reporting. Our management team will need to invest significant management time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

**We do not foresee paying cash dividends in the foreseeable future and, as a result, our investors' sole source of gain, if any, will depend on capital appreciation, if any.**

We do not plan to declare or pay any cash dividends on our shares of common stock in the foreseeable future and currently intend to retain any future earnings for funding growth. As a result, you should not rely on an investment in our securities if you require the investment to produce dividend income. Capital appreciation, if any, of our shares may be your sole source of gain for the foreseeable future. Moreover, you may not be able to resell your shares in our company at or above the price you paid for them.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable to smaller reporting companies.

**ITEM 2. PROPERTIES**

Our registered office in Hong Kong is located at Flat 4, 13/F, Block 4, Taiping Industrial Centre, 51A Ting Kok Road, Tai Po, N.T. Hong Kong.

All of our manufacturing operations are currently located in mainland China at Luoshan Industrial Zone, Pinghu, Longgang, Shenzhen, Guangdong, China, 518111. Our facilities cover approximately 487,000 square feet of total space, consisting of manufacturing plants, dormitories and research and development facilities. We lease our manufacturing facilities from various landlords under a total of six leases with varying terms ranging, which are renewed upon expiration. All leases have been fully prepaid until the expiration date. The table below lists the locations, approximate square footage, principal use and lease expiration dates of the facilities used in our manufacturing operations as of December 31, 2009.

<u>Location</u>	<u>Area (square feet)</u>	<u>Principal Use</u>	<u>Lease expiration date</u>
Workshop A1 & dormitory, Luo Shan Industrial Park, Shan Xia Community, Ping Hu Street, Long Gang District, Shenzhen	58,986	Industry & Residence	December 31, 2011
Workshop A2 & dormitory, Luo Shan Industrial Park, Shan Xia Community, Ping Hu Street, Long Gang District, Shenzhen	81,117	Industry & Residence	December 31, 2011
4 <sup>th</sup> Floor, Building A, (4 <sup>th</sup> Floor, Building 1 & 2 <sup>nd</sup> Floor, Building B2 ) Workshop, B2 Area, Luo Shan Industrial Park, Shan Xia Community, Ping Hu Street, Long Gang District, Shenzhen	94,722	Industry & Residence	June 14, 2010
Storage, Building 2, (6 <sup>th</sup> Floor, Building 1)Area B2, Luo Shan Industrial Park, Shan Xia Community, Ping Hu Street, Long Gang District, Shenzhen	50,698	Industry & Residence	December 31, 2010
1 <sup>st</sup> -4 <sup>th</sup> Floor, Building 12, (1 <sup>st</sup> -7 <sup>th</sup> Floor, Building 9), Da Wang Industrial Park, Xin Xia Road, Ping Hu Street, Long Gang District, Shenzhen	55,897	Industry & Residence	September 30, 2010
Workshop & dormitory , chong Tou Hu village, Renming Road,Guang Lan Street, Bao An District, Shenzhen	146,336	Industry & Residence	September 15, 2010

In China, only the PRC government and peasant collectives may own land. In February 2007, we acquired approximately 1.36 million square feet of land equity in Industry Development Zone, New Lake, MaAn Town, HuiCheng District, HuiZhou, GuangDong, China for a total of RMB26 million under land use right grant from the HuiZhou State-Owned Land Resource Bureau that gives us the right to use the land for 50 years and an agreement with the government of MaAn Town. In the event we wish to continue to use the land after the 50-year period, we must apply for an extension at least one year prior to the land grant's expiration. We began construction of our new manufacturing facility on this site in October, 2008 and anticipate that the new facility will be completed in the fourth quarter of 2011, at which time we will move our entire manufacturing operations to the new location. In accordance with the terms of the land use right, we began development of the land within one year of receiving the certificate, which we received in June 2007.

Our rights with respect to the land use right grant permit us to develop the land and construct buildings for industrial applications. We have the right to transfer or rent the land and use it as collateral for our loans.

### **ITEM 3. LEGAL PROCEEDINGS**

On August 20, 2007, a lawsuit was filed against Shenzhen China and various other defendants by Energizer, S.A. in the United States District Court for the Southern District of New York. The lawsuit arises out of a fire that occurred on a cargo vessel carrying batteries sold to Energizer by Shenzhen China that resulted in damages to various third parties. Energizer alleges that it is entitled to indemnification from Shenzhen Highpower for any damages or losses that it becomes liable to pay to third parties as a result of the fire. Energizer seeks indemnity and/or contribution from Shenzhen Highpower for such sums, together with expenses, including attorneys' fees and costs. Our insurance company has provided us with counsel in this case. We believe that we have meritorious defenses against the claims asserted by Energizer, and intend to vigorously defend the lawsuit. Energizer continues to be one of our largest customers.

### **ITEM 4. RESERVED**

## PART II

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

#### Market Information

From June 19, 2008 to December 18, 2009, our shares of common stock were listed for trading on the NYSE Amex under the ticket symbol "HPJ." On December 21, 2009, our common stock commenced trading on the NASDAQ Global Market under the symbol "HPJ."

On March 29, 2010 the closing sales price for our common stock on the NASDAQ Global Market was \$6.40 per share.

The following table summarizes the high and low sales prices of our common stock as reported by the NYSE Amex (on and prior to December 18, 2009) and NASDAQ (on and after December 21, 2009).

	<u>High</u>	<u>Low</u>
<b>Year ended December 31, 2009</b>		
Fourth Quarter	\$ 9.07	\$ 2.59
Third Quarter	\$ 3.89	\$ 1.23
Second Quarter	\$ 3.05	\$ 1.43
First Quarter	\$ 3.19	\$ 2.00
<b>Year ended December 31, 2008</b>		
Fourth Quarter	\$ 3.85	\$ 2.50
Third Quarter	\$ 4.78	\$ 1.68
Second Quarter (June 19, 2008 to June 30, 2008)	\$ 8.35	\$ 4.75

The stock market in general has experienced extreme stock price fluctuations in the past few years. In some cases, these fluctuations have been unrelated to the operating performance of the affected companies. Many companies have experienced dramatic volatility in the market prices of their common stock. We believe that a number of factors, both within and outside its control, could cause the price of our common stock to fluctuate, perhaps substantially. Factors such as the following could have a significant adverse impact on the market price of our common stock:

- Our financial position and results of operations;
- Our ability to obtain additional financing and, if available, the terms and conditions of the financing;
- Concern as to, or other evidence of, the reliability and efficiency of our proposed products or our competitors' products;
- Announcements of innovations or new products by us or our competitors;
- Federal and state governmental regulatory actions and the impact of such requirements on our business;
- The development of litigation against us;
- Period-to-period fluctuations in our operating results;
- Changes in estimates of our performance by any securities analysts;
- The issuance of new equity securities pursuant to a future offering or acquisition;

- Changes in interest rates;
- Competitive developments, including announcements by competitors of new products or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Investor perceptions of our company; and
- General economic and other national conditions.

**Stockholders**

As of March 29, 2010 we had 30 stockholders of record. This number does not include an indeterminate number of stockholders whose shares are held by brokers in street name.

**Dividends**

We do not expect to declare or pay any cash dividends on our common stock in the foreseeable future, and we currently intend to retain future earnings, if any, to finance the expansion of our business. The decision whether to pay cash dividends on our common stock will be made by our board of directors, in its discretion, and will depend on our financial condition, operating results, capital requirements and other factors that the board of directors considers significant.

We did not pay cash dividends in the years ended December 31, 2009 or 2008.

**Transfer Agent**

The transfer agent and registrar for our common stock is Corporate Stock Transfer, Inc.

**Equity Compensation Plan Information**

Our equity compensation plan information is provided as set forth in Part III, Item 11 herein.

**Additional Information**

Copies of our annual reports, quarterly reports, current reports, and any amendments to those reports, are available free of charge on the Internet at [www.sec.gov](http://www.sec.gov). All statements made in any of our filings, including all forward-looking statements, are made as of the date of the document in which the statement is included, and we do not assume or undertake any obligation to update any of those statements or documents unless we are required to do so by law.

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Not applicable for a smaller reporting company.

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

### Forward-Looking Statements

*The following discussion should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report. This report contains forward-looking statements. The words "anticipated," "believe," "expect," "plan," "intend," "seek," "estimate," "project," "could," "may," and similar expressions are intended to identify forward-looking statements. These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect our management's current views with respect to future events and financial performance and involve risks and uncertainties, including, without limitation, general economic and business conditions, changes in foreign, political, social, and economic conditions, regulatory initiatives and compliance with governmental regulations, the ability to achieve further market penetration and additional customers, and various other matters, many of which are beyond our control. Our actual results could differ materially from those anticipated in these forward-looking statements, which are subject to a number of risks, uncertainties and assumptions described in the "Risk Factors" section and elsewhere in this report. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements and there can be no assurance of the actual results or developments.*

### Overview

We were incorporated in the state of Delaware on January 3, 2006. We were originally organized as a "blank check" shell company to investigate and acquire a target company or business seeking the perceived advantages of being a publicly held corporation. On November 2, 2007, we closed a share exchange transaction, pursuant to which we (i) became the 100% parent of HKHT and its wholly-owned subsidiary, Shenzhen Highpower, (ii) assumed the operations of HKHT and its subsidiary and (iii) changed our name from SRKP 11, Inc. to Hong Kong Highpower Technology, Inc. HKHT was incorporated in Hong Kong in 2003, under the Companies Ordinance of Hong Kong. Shenzhen Highpower was founded in founded in 2001. HKHT also has two other subsidiaries, HZ Highpower and Springpower. HZ Highpower has not yet commenced business operations.

In addition, on November 2, 2007, concurrently with the close of the Share Exchange, we conducted a private placement transaction (the "Private Placement"). Pursuant to Subscription Agreements entered into with the investors, we sold an aggregate of 1,772,745 shares of Common stock at \$1.76 per share. As a result, we received gross proceeds in the amount of \$3.12 million.

Through Shenzhen Highpower, we manufacture Nickel Metal Hydride ("Ni-MH") for both consumer and industrial applications. We have developed significant expertise in Ni-MH battery technology and large-scale manufacturing that enables us to improve the quality of our battery products, reduce costs, and keep pace with evolving industry standards. In 2008, we commenced manufacturing two lines of Lithium-Ion ("Li-ion") and Lithium polymer rechargeable batteries through Springpower for higher-end, high-performance applications, such as laptops, digital cameras and wireless communication products. Our automated machinery allows us to process key aspects of the manufacturing process to ensure high uniformity and precision, while leaving the non-key aspects of the manufacturing process to manual labor.

We employ a broad network of salespersons in China and Hong Kong, which target key customers by arranging in-person sales presentations and providing post-sale services. The sales staff works with our customers to better address customers' needs.

### Background

#### *Public Offering*

In June 2008, we completed a public offering consisting of 603,750 shares of our common stock. Our sale of common stock, which was sold indirectly by us to the public at a price of \$3.25 per share, resulted in net proceeds of approximately \$984,000. These proceeds were net of underwriting discounts and commissions, fees for legal and auditing services, and other offering costs. Upon the closing of the offering, we sold to the underwriter warrants to purchase up to 52,500 shares of our common stock. In December 2009, a total of 2,510 shares of common stock were issued upon the cashless exercise of 5,000 of the warrants. The remaining 47,500 outstanding warrants are exercisable at a per share price of \$3.90 and expire if unexercised after five years.

### ***Reverse Stock Split***

On June 19, 2008, we effected a 5-for-8 reverse stock split of all of our issued and outstanding shares of common stock (the “Reverse Stock Split”) by filing an amendment to our Certificate of Incorporation with the Secretary of the State of Delaware. The par value and number of authorized shares of our common stock remained unchanged. The number of shares and per share amounts included in the consolidated financial statements and the accompanying notes included in the F- section have been adjusted to reflect the Reverse Stock Split retroactively. Unless otherwise indicated, all references to number of share, per share amounts and earnings per share information contained in this report give effect to the Reverse Stock Split.

### ***Share Exchange***

On October 20, 2007, we entered into a share exchange agreement (the “Exchange Agreement”) with all of the shareholders of HKHT, consisting of 35 shareholders. Pursuant to the Exchange Agreement, we agreed to issue shares of our common stock in exchange for all of the issued and outstanding securities of HKHT (the “Share Exchange”). The Share Exchange closed on November 2, 2007. Upon the closing of the Share Exchange, we (i) became the 100% parent of HKHT, and HKHT’s wholly-owned subsidiary Shenzhen Highpower, (ii) assumed the operations of HKHT and its subsidiary and (iii) changed our name from SRKP 11, Inc. to Hong Kong Highpower Technology, Inc.

Upon the closing of the Share Exchange, we issued an aggregate of 9,248,973 shares of our common stock to the shareholders of HKHT and/or their designees in exchange for all of the issued and outstanding securities of HKHT. In addition, immediately prior to the closing of the Share Exchange and the Private Placement, as described below, we and certain of our stockholders agreed to cancel an aggregate of 1,597,872 shares of common stock such that there were 1,777,128 shares of common stock outstanding immediately prior to the Share Exchange and Private Placement. We issued no fractional shares in connection with the Share Exchange.

Immediately after the closing of the Share Exchange and Private Placement, we had 12,798,846 outstanding shares of common stock. Upon the closing of the Share Exchange, the shareholders of HKHT and their designees owned approximately 72.3% of our issued and outstanding common stock, the pre-existing stockholders of the Company owned 13.9% and investors in the Private Placement (described below) (that closed concurrently with the Share Exchange) owned 13.8% of our outstanding common stock.

Pursuant to the terms of the Share Exchange, we agreed to register a total of 1,777,128 shares of common stock held by our stockholders immediately prior to the Share Exchange. Of these 1,777,128 shares, 817,479 shares are covered by a resale registration statement filed with the Securities and Exchange Commission (“SEC”) in connection with the Private Placement (described below) and declared effective on June 19, 2008. The remaining 959,649 shares, which are held by affiliates of WestPark Capital, Inc. (“WestPark”), are covered by a resale registration statement declared effective by the SEC on August 4, 2008. WestPark acted as the placement agent in the Private Placement.

Immediately after the closing of the Share Exchange, we changed our corporate name from “SRKP 11, Inc.” to “Hong Kong Highpower Technology, Inc.” Shares of our common stock are currently listed for trading on the NYSE Amex under the ticker symbol “HPJ.”

The transactions contemplated by the Exchange Agreement were intended to be a “tax-free” incorporation pursuant to the provisions of Section 351 of the Internal Revenue Code of 1986, as amended.

### ***Private Placement***

On November 2, 2007, concurrently with the close of the Share Exchange, we received gross proceeds of \$3.1 million in a private placement transaction (the “Private Placement”). Pursuant to subscription agreements entered into with the investors, we sold an aggregate of 1,772,745 shares of common stock at \$1.76 per share. The investors in the Private Placement also entered into a lock up agreement pursuant to which they agreed not to sell their shares until ninety (90) days after our common stock was listed on the American Stock Exchange, when one-tenth of their shares are released from the lock up, after which their shares will automatically be released from the lock up on a monthly basis pro rata over a nine month period. After commissions and expenses related to the Private Placement, we received net proceeds of approximately \$2,738,000 in the Private Placement. The purpose of the Private Placement was to raise working capital. All of the proceeds from the Private Placement were used for working capital and the development of our lithium-ion battery manufacturing business.



We filed a registration statement covering the common stock sold in the Private Placement which was declared effective by the SEC on June 19, 2008. We are required to use our reasonable best efforts to maintain the registration statement effective for a period of 24 months at our expense.

WestPark acted as placement agent in connection with the Private Placement. For its services in connection with the Share Exchange and as placement agent, WestPark received an aggregate commission equal to 10% of the gross proceeds from the Private Placement, in addition to \$30,000 in connection with the execution of the Exchange Agreement and a \$40,000 success fee for the Share Exchange, for an aggregate amount fee of \$382,000. No other consideration was paid to WestPark or to SRKP 11 in connection with the Share Exchange or Private Placement. Some of the controlling shareholders and control persons of WestPark were also, prior to the completion of the Share Exchange, controlling shareholders and control persons of our company, including Richard Rappaport, who is the Chief Executive Officer of WestPark and was the President and a significant shareholder of our company prior to the Share Exchange, and Anthony C. Pintsopoulos, who is the Chief Financial Officer of WestPark and was a controlling stockholder and an officer and director of our company prior to the Share Exchange. Each of Messrs. Rappaport and Pintsopoulos resigned from all of their executive and director positions with our company upon the closing of the Share Exchange.

### **Critical Accounting Policies, Estimates and Assumptions**

The SEC defines critical accounting policies as those that are, in management's view, most important to the portrayal of our financial condition and results of operations and those that require significant judgments and estimates.

The preparation of these consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of our financial statements. We base our estimates on historical experience, actuarial valuations and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Some of those judgments can be subjective and complex and, consequently, actual results may differ from these estimates under different assumptions or conditions. While for any given estimate or assumption made by our management there may be other estimates or assumptions that are reasonable, we believe that, given the current facts and circumstances, it is unlikely that applying any such other reasonable estimate or assumption would materially impact the financial statements. The accounting principles we utilized in preparing our consolidated financial statements conform in all material respects to generally accepted accounting principles in the United States of America.

**Use of Estimates.** In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. These accounts and estimates include, but are not limited to, the valuation of accounts receivable, inventories, deferred income taxes and the estimation on useful lives of plant and equipment. Actual results could differ from those estimates.

**Accounts Receivable.** Accounts receivable are stated at original amount less allowance made for doubtful receivables, if any, based on a review of all outstanding amounts at the period end. An allowance is also made when there is objective evidence that we will not be able to collect all amounts due according to original terms of receivables. Bad debts are written off when identified. We extend unsecured credit to customers in the normal course of business and believe all accounts receivable in excess of the allowances for doubtful receivables to be fully collectible. We do not accrue interest on trade accounts receivable.

**Revenue Recognition.** We recognize revenue when the goods are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Sales of goods represent the invoiced value of goods, net of sales returns, trade discount and allowances.

We do not have arrangements for returns from customers and do not have any future obligations directly or indirectly related to product resales by the customer. We have no incentive programs.

**Inventories.** Inventories are stated at the lower of cost or market value. Cost is determined on a weighted average basis and includes purchase costs, direct labor and factory overheads. In assessing the ultimate realization of inventories, management makes judgments as to future demand requirements compared to current or committed inventory levels. Our reserve requirements generally increase based on management's projected demand requirements, and decrease due to market conditions and product life cycle changes. Our production process results in a minor amount of waste materials. We do not record a value for the waste in our cost accounting. We record proceeds on an as realized basis, when the waste is sold. We offset the proceeds from the sales of waste materials as a reduction of production costs.

**Income Taxes.** We use the asset and liability method of accounting for income taxes pursuant to SFAS No. 109, "Accounting for Income Taxes." Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and loss carry forwards and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. We have also adopted FIN 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109."

**Foreign Currency Translation.** Our functional currency is the Renminbi ("RMB"). We maintain our financial statements in the functional currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

For financial reporting purposes, our financial statements, which are prepared using the functional currency, are then translated into United States dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders' equity is translated at historical exchange rates. Any translation adjustments resulting are not included in determining net income but are included in foreign exchange adjustment in other comprehensive income, a component of stockholders' equity.

## Results of Operations

The following table sets forth the consolidated statements of operations of the Company for the years ended December 31, 2009, 2008 and 2007 (U.S. dollars):

Consolidated Statements of Operations	Year Ended December 31,		
	2009	2008	2007
	<i>(in thousands except share and per share information)</i>		
Net Sales	\$ 70,331	\$ 75,004	\$ 73,262
Cost of Sales	(55,300)	(62,239)	(63,791)
Gross profit	\$ 15,031	\$ 12,765	\$ 9,470
Depreciation	(270)	(194)	(121)
Selling and distribution costs	(2,355)	(2,416)	(2,096)
General and administrative costs including stock-based compensation	(6,405)	(6,098)	(3,461)
Loss on exchange rate difference	(60)	(1,182)	(855)
Fees and costs related to reorganization	-	-	(582)
Income from operations	\$ 5,941	\$ 2,875	\$ 2,357
Change in fair value of currency forwards	(117)	116	-
Change in fair value of warrants	-	(276)	-
Other Income	509	463	149
Interest expense	(528)	(642)	(696)
Other expenses	(214)	-	-
Income before taxes	\$ 5,591	\$ 2,535	\$ 1,809
Income taxes	(1,148)	(529)	(145)
Net income	<u>\$ 4,443</u>	<u>\$ 2,006</u>	<u>\$ 1,664</u>
Net income per common share – basic and diluted	<u>\$ 0.33</u>	<u>\$ 0.15</u>	<u>\$ 0.17</u>
Weighted average common shares outstanding			
-basic	13,608,265	13,205,599	9,832,493
-diluted	13,667,697	13,233,353	9,832,493
Dividends declared per common share		-	

## Years ended December 31, 2009 and 2008

Net sales for year the ended December 31, 2009 were \$70.3 million compared to \$75.0 million for the year ended December 31, 2008, a decrease of 6.2%. The decrease in net sales for the year ended December 31, 2009 over the year ended December 31, 2008 was due to a 21% decrease in the average selling price of our battery units, and a 19% increase in the number of battery units sold. The increase in the number of battery units sold in 2009 was primarily attributable to increased orders from our major customers, Energizer Battery Manufacturing, Inc. and Gigaset Communications GmbH. Sales of battery seconds decreased from \$412,311 during the year ended December 31, 2008 to \$213,849 during the year ended December 31, 2009. The 21% decrease in the average selling price of our battery units was due to adjusting the selling prices of our batteries in accordance with the market price of nickel.

Cost of sales consists of the cost of nickel and other materials. Costs of sales were \$55.3 million for the year ended December 31, 2009 as compared to \$62.2 million for the comparable period in 2008. As a percentage of net sales, cost of sales decreased to 78.6% for the year ended December 31, 2009 compared to 83.0% for the comparable period in 2008. This was attributable to a 25% decrease in the average per unit cost of goods sold during the year ended December 31, 2009 as compared to the comparable period in 2008, which resulted from a 30% decrease in the average cost of nickel during the year ended December 31, 2009 compared to the comparable period in 2008.

Gross profit for the year ended December 31, 2009 was \$15.0 million, or 21.4% of net sales, compared to \$12.8 million, or 17.0% of net sales, respectively, for the comparable period in 2008. Management considers gross profit to be a key performance indicator in managing our business. Gross profit margins are usually a factor of cost of sales, product mix and demand for product. The increase in our gross profit margin for the year ended December 31, 2009 is primarily due to a 30% decrease in the average cost of nickel during the year ended December 31, 2009 compared to the comparable period in 2008.

To cope with pressure on our gross margins we intend to control production costs by preparing budgets for each department and comparing actual costs with our budgeted figures monthly and quarterly. Additionally, we have reorganized the Company's production structure and have focused more attention on employee training to enhance efficiency. We also intend to expand our market share by investing in greater promotion of our products in regions such as the U.S., Russia, Europe and India, and by expanding our sales team with more experienced sales personnel. We have also begun production of a line of Li-ion batteries as to complement our current Ni-MH battery products so that we are less vulnerable to price increases in nickel. We intend to expand production of our Li-ion battery products in the future

Selling and distribution costs were \$2.4 million for the year ended December 31, 2009, compared to \$2.4 million for the comparable period in 2008. Selling and distribution costs remained flat due to our enhanced selling and distribution cost controls.

General and administrative costs were \$6.4 million, or 9.1% of net sales, for the year ended December 31, 2009, compared to \$6.1 million, or 8.1% of net sales, for the comparable period in 2008. Management considers these expenses as a percentage of net sales to be a key performance indicator in managing our business. The increase as a percentage of net sales was primarily due to an increase in personnel & labor costs and research & development expenses. Labor and personnel costs increased \$216,772 for year ended December 31, 2009 over the comparable period in 2008 due to the expansion of our technician and administrative team to expand our market share. Research and development expenses increased \$718,412 for the year ended December 31, 2009 over the year ended December 31, 2008 due to our increased commitment to advance our research and development activities. Although we anticipate our general and administrative expenses to continue to increase on an absolute dollar basis as a result of additional legal, accounting and other related costs from becoming a public reporting company, we do not believe that general and administrative expenses as a percentage net sales will trend upward as we believe that our net sales will also increase.

We experienced losses on the exchange rate difference between the U.S. Dollar and the RMB of \$60,000 and \$1.2 million, respectively, in the years ended December 31, 2009 and 2008, a decrease of 94.9%, due to the stabilization of the U.S. Dollar relative to the RMB over the respective periods. In 2009, to cope with devaluation of the U.S. Dollar relative to the RMB, we engaged in currency hedging and adjusted the selling price of batteries to vary with the U.S. Dollar exchange rate relative to the RMB.

Other income from operations, which consists of bank interest income, forward contract gains and losses and sundry income, was \$509,000, for the year ended December 31, 2009, as compared to \$463,000 for the year ended December 31, 2008, an increase of 10.0%. The increase was due to a gain related to a local government sponsor which was the sponsor for our listing on the NYSE Amex from the Shenzhen government of \$248,000 in 2009, partially offset by decreases of \$87,000 and \$65,000 in bank interest income and sundry income, respectively, and a gain of \$50,000 on a forward contract in 2008.

Interest expense was \$528,000 for the year ended December 31, 2009, as compared to \$642,000 for the respective comparable period in 2008. The decrease was primarily due to lower borrowing levels. We decreased our borrowings by \$40,000 in the year ended December 31, 2009 as compared to the year ended December 31, 2008. Increases in borrowing rates would further increase our interest expense, which would have a negative effect on our results of operations.

During the year ended December 31, 2009, we recorded a provision for income taxes of \$1.1 million, as compared to \$529,000 for the respective comparable period in 2008. The increase in income taxes for the year ended December 31, 2009 as compared to the year ended December 30, 2008 was a result of an increase in our net taxable income.

Net income for the year ended December 31, 2009 was \$4.4 million, compared to a net income of \$2.0 million for the comparable period in 2008, an increase of 121%.

#### **Years ended December 31, 2008 and 2007**

Net sales for year the ended December 31, 2008 were \$75.0 million compared to \$73.3 million for the year ended December 31, 2007, an increase of 2.4%. The increase in net sales for the year ended December 31, 2008 over the year ended December 31, 2007 was due to a 7.6% increase in the average selling price of our battery units, including \$412,311 and \$160,170 from the sale of battery seconds during the years ended December 31, 2008 and 2007, respectively, which was partially offset by a 4.5% decrease in the number of battery units sold. The 7.6% increase in the average selling price of our battery units was due to our agreement with our major customers to adjust the selling prices of our batteries in accordance with the market price of nickel and the devaluation of the U.S. Dollar relative to the RMB. The decrease in the number of battery units sold in 2008 was primarily attributable to decreased orders from our major customers, Energizer Battery Manufacturing, Inc. and Uniross Batteries (HK) Ltd.

Cost of sales consists of the cost of nickel and other materials. Costs of sales were \$62.2 million for the year ended December 31, 2008 as compared to \$63.8 million for the comparable period in 2007. As a percentage of net sales, cost of sales decreased to 83.0% for the year ended December 31, 2008 compared to 87.1% for the comparable period in 2007. This was attributable to a 2% decrease in the average per unit cost of goods sold during the year ended December 31, 2008 as compared to the comparable period in 2007, which resulted from a 40% decrease in the average cost of nickel during the year ended December 31, 2008 compared to the comparable period in 2007.

Gross profit for the year ended December 31, 2008 was \$12.8 million, or 17.0% of net sales, compared to \$9.5 million, or 12.9% of net sales, respectively, for the comparable period in 2007. Management considers gross profit to be a key performance indicator in managing our business. Gross profit margins are usually a factor of cost of sales, product mix and demand for product. The increase in our gross profit margin for the year ended December 31, 2008 is primarily due to a 40% decrease in the average cost of nickel during the year ended December 31, 2008 compared to the comparable period in 2007.

To cope with pressure on our gross margins we intend to control production costs by preparing budgets for each department and comparing actual costs with our budgeted figures monthly and quarterly. Additionally, we have reorganized the Company's production structure and have focused more attention on employee training to enhance efficiency. We also intend to expand our market share by investing in greater promotion of our products in regions such as the U.S., Russia, Europe and India, and by expanding our sales team with more experienced sales personnel. We have also begun production of a line of Li-ion batteries as to complement our current Ni-MH battery products so that we are less vulnerable to price increases in nickel. We intend to expand production of our Li-ion battery products in the future.

Selling and distribution costs were \$2.4 million for the year ended December 31, 2008, compared to \$2.1 million for the comparable period in 2007. The increase in selling and distribution costs was primarily due to the expansion of the company's salesforce. Our market share decreased attributed to the decreased demand for our products due to the global economic downturn and challenging economic conditions. .

General and administrative costs were \$6.1 million, or 8.1% of net sales, for the year ended December 31, 2008, compared to \$3.5 million, or 4.7% of net sales, for the comparable period in 2007. Management considers these expenses as a percentage of net sales to be a key performance indicator in managing our business. The increase as a percentage of net sales was primarily due to an increase in personnel and labor costs, which increased \$47,500 for year ended December 31, 2008 over the comparable period in 2007 due to the expansion of our technician and marketing team to expand our market share and \$303,000 in stock based compensation charges in 2008. Although we anticipate our general and administrative expenses to continue to increase on an absolute dollar basis as a result of additional legal, accounting and other related costs from becoming a public reporting company, we do not believe that general and administrative expenses as a percentage net sales will trend upward as we believe that our net sales will also increase.

We experienced losses on the exchange rate difference between the U.S. Dollar and the RMB of \$1.2 million and \$855,000, respectively, in the years ended December 31, 2008 and 2007, an increase of 38.3%, due to the devaluation of the U.S. Dollar relative to the RMB over the respective periods. In 2008, to cope with devaluation of the U.S. Dollar relative to the RMB, we engaged in currency hedging and adjusted the selling price of batteries to vary with the U.S. Dollar exchange rate relative to the RMB.

All costs associated with the reverse merger transaction, consisting primarily of consideration paid to the previous control parties of Highpower and legal and investment banking fees and costs, were expensed as incurred as a cost of the recapitalization, and have been presented as an operating cost line item entitled "fees and costs related to reorganization" in the statement of operations. These costs were \$Nil and \$582,000 for the years ended December 31, 2008 and 2007, respectively.

Other income from operations, which consists of bank interest income, forward contract gains and losses and sundry income, was \$463,000, for the year ended December 31, 2008, as compared to \$149,000 for the year ended December 31, 2007, an increase of 211.6%. The increase was due to a gain on forward contract of \$50,000 in 2008, and increases of \$74,000 and \$190,000 in bank interest income and sundry income, respectively.

Interest expense was \$642,000 for the year ended December 31, 2008, as compared to \$696,000 for the respective comparable period in 2007. The decrease was primarily due to lower borrowing levels. We decreased our borrowings by \$0.58 million in the year ended December 31, 2008 as compared to the year ended December 31, 2007. Increases in borrowing rates would further increase our interest expense, which would have a negative effect on our results of operations.

During the year ended December 31, 2008, we recorded a provision for income taxes of \$529,000, as compared to \$145,000 for the respective comparable period in 2007. The increase in income taxes for the year ended December 31, 2008 as compared to the year ended December 30, 2007 was a result of an increase in our net taxable income.

Net income for the year ended December 31, 2008 was \$2.0 million, compared to a net income of \$1.7 million for the comparable period in 2007.

### **Liquidity and Capital Resources**

To provide liquidity and flexibility in funding our operations, we borrow amounts under bank facilities and other external sources of financing. As of December 31, 2009, we had in place general banking facilities with four financial institutions aggregating \$27.0 million. The maturity of these facilities is generally up to one year. The facilities are subject to annual review and approval. These banking facilities are guaranteed by us and some of our shareholders, including Dang Yu Pan, Wen Liang Li and Wen Wei Ma, and contain customary affirmative and negative covenants for secured credit facilities of this type. However, these covenants do not have any impact on our ability to undertake additional debt or equity financing. Interest rates are generally based on the banks' reference lending rates. No significant commitment fees are required to be paid for the banking facilities. As of December 31, 2009, we had utilized approximately \$14.8 million under such general credit facilities and had available unused credit facilities of \$12.2 million.

For the year ended December 31, 2009, net cash provided by operating activities was approximately \$3.3 million, as compared to net cash provided by operating activities of \$6.3 million for the comparable period in 2008. The decrease in net cash provided by operating activities is primarily attributable to an increase in accounts receivable levels. For the year ended December 31, 2008, net cash provided by operating activities was approximately \$6.3 million, as compared to net cash used in operating activities of \$1.5 million for the comparable period in 2007. The increase in net cash provided by operating activities is primarily attributable to a decrease in accounts receivable levels.

Net cash used in investing activities was \$3.7 million for the year ended December 31, 2009 compared to \$4.6 million for the comparable period in 2008. The decrease of cash used in investing activities was primarily attributable to a decrease in the acquisition of plant and equipment over the respective periods. Net cash used in investing activities was \$4.6 million for the year ended December 31, 2008 compared to \$4.9 million for the comparable period in 2007. The decrease of cash used in investing activities was primarily attributable to the acquisition of land equity in HuiZhou for the comparable period in 2007.

Net cash used in financing activities was \$778,000 for the year ended December 31, 2009 as compared to net cash provided by financing activities of \$890,000 for the comparable period in 2008. The decrease in net cash provided by financing activities is primarily attributable to the issuance of common stock in 2008. Net cash provided by financing activities was \$890,000 for the year ended December 31, 2008 as compared to \$7.4 million for the comparable period in 2007. The decrease in net cash provided by financing activities is primarily attributable to a decrease in bank borrowings of \$9.46 million in 2007.

For Fiscal 2009 and 2008, our inventory turnover was 5.1 and 4.87 times, respectively. The average days outstanding of our accounts receivable at December 31, 2009 were 60 days, as compared to 59 days at December 31, 2008. Inventory turnover and average days outstanding are key operating measures that management relies on to monitor our business. In the next 12 months, we expect to expand our research, development and manufacturing of lithium-based batteries and anticipate additional capital expenditures of approximately \$1.0 million.

We are required to contribute a portion of our employees' total salaries to the Chinese government's social insurance funds, including medical insurance, unemployment insurance and job injuries insurance, and a housing assistance fund, in accordance with relevant regulations. We expect these contributions will contribute to administrative and other operating expenses in an amount of approximately \$65,000 per month based on the size of our current workforce. We expect the amount of our contribution to the government's social insurance funds to increase in the future as we expand our workforce and operations.

Based upon our present plans, we believe that cash on hand, cash flow from operations and funds available under our bank facilities will be sufficient to fund our capital needs for the next 12 months. However, our ability to maintain sufficient liquidity depends partially on our ability to achieve anticipated levels of revenue, while continuing to control costs. If we did not have sufficient available cash, we would have to seek additional debt or equity financing through other external sources, which may not be available on acceptable terms, or at all. Failure to maintain financing arrangements on acceptable terms would have a material adverse effect on our business, results of operations and financial condition.

The use of working capital is primarily for the maintenance of our accounts receivable and inventory. We provide our major customers with payment terms ranging from 30 to 75 days. Additionally, our production lead time is approximately 30 to 40 days, from the inspection of incoming materials, to production, testing and packaging. We need to keep a large supply of raw materials and work in process and finished goods inventory on hand to ensure timely delivery of our products to our customers. We use two methods to support our working capital needs: (1) paying our suppliers under payment terms ranging from 30 to 60 days; and (2) using short-term bank loans. We use our accounts receivable as collateral for our loans. Upon receiving payment for our accounts receivable, we pay our short-term loans. Our working capital management practices are designed to ensure that we maintain sufficient working capital.

#### **Guarantees of Bank Loans**

Dang Yu Pan, our Chairman and Chief Executive Officer, Wen Liang Li, our Vice President, Chief Technology Officer and director, and Wen Wei Ma, our Vice President of Manufacturing, each have provided personal guarantees under our outstanding banking facilities. The following table shows the amount outstanding on each of our bank loans as of December 31, 2009 and the identity of the officer(s) who guaranteed each loan.

Name of Bank	Amount Granted	Amount Outstanding Under Loan	Guaranteed by Officers
Bank Of China	\$14.65 million	\$7.07 million	Dang Yu Pan, Wen Liang Li, Wen Wei Ma
Shenzhen Development Bank Co., Ltd	\$1.34 million	\$1.34 million	Dang Yu Pan
Shanghai Pudong Development Bank Co. Ltd.	\$8.05 million	\$5.12 million	Dang Yu Pan
Citibank (China) Co., Ltd.	\$2.99 million	\$1.26 million	Dang Yu Pan, Wen Liang Li, Wen Wei Ma

Each of Springpower Technology (Shenzhen) Co., Ltd., a wholly-owned subsidiary of Hong Kong Highpower Technology Co., Ltd., Dang Yu Pan, Wen Liang Li and Wen Wei Ma entered into a guarantee agreement to guarantee Shenzhen Highpower's obligations under the Agreement and Line of Credit with Bank of China. The Company may not enter into any counter-guarantee agreement or similar agreement that impairs the rights of the Bank of China under the Agreement.

Pursuant to the guarantee agreement related to the loan with Shenzhen Development Bank Co., Ltd., Mr. Pan guaranteed all of the principal, interest, compound interest and penalty interest of all debts incurred by our subsidiary, Shenzhen Highpower, as well as expenses incurred by realization of creditor's rights, which include notification costs, fees of service, survey fees, lawyer's fees, legal costs, travel expenses, evaluation costs, auctioneer's fees, attachment fees and enforcement charges. The guarantee is irrevocable and remains in effect until two years after the expiration of the credit extended pursuant to the loan agreement.

Pursuant to the guarantee agreement related to the loan with Shanghai Pudong Development Bank Co., Ltd., Mr. Pan guaranteed the principal, interests, damages, compensations, service charges and other fees arising out from the loan. Pursuant to the guarantee, Mr. Pan may not take certain actions without first obtaining the bank's written consent, including: (a) selling, gifting, leasing, lending, transferring, mortgaging, pledging or otherwise disposing of, partially or fully, his substantial assets; (b) providing a guarantee for a third party, which materially and adversely influences his financial conditions or his capacity to perform its obligations under the guarantee; (c) declaring bankruptcy; or (d) executing any contract/agreement that substantially adversely influences his capacity to perform his obligations under the guarantee. Mr. Pan must also notify the bank upon the occurrence of certain events including (a) any event causing any of his representations or warranties to become untrue; (b) his involvement in an action or arbitration; (c) a change in his address or employment; or (d) a claim by other creditors for his bankruptcy. In the event of an enumerated event of default, the bank may declare accelerate repayment of the loan and require Mr. Pan to repay the loan in accordance with the guarantee or require our subsidiary, Shenzhen Highpower to supplement the security deposit. In addition, Mr. Pan will be liable for any damages to the bank in the event of the occurrence of an event of default.

Pursuant to the Letters of Guarantee related to the loan with Citibank China Co., Ltd., each of the guarantors guaranteed to pay any or all of the outstanding debts, including principal, interest, charges, defaults interest, penalties, costs, expenditures, compensation, payments, and other expenses, due and payable by our subsidiary, Shenzhen Highpower. Each of the guarantors agreed not to claim, enforce or exercise any right of subrogation he may obtain under the guarantee. Additionally, each guarantor waived any right to act as a debtee or claim any rights to the assets of Shenzhen Highpower, or compete with the bank in the case of a bankruptcy or liquidation of Shenzhen Highpower. Each guarantor also agreed that should he fail to make a payment obligation under the guarantee when due and payable, the bank may set off such debts with any deposit or other assets held or controlled by the bank or with any amount owed by the bank to the guarantor. Pursuant to the guarantee, each of the guarantors agreed, unless otherwise agreed by the bank, so long as any debt remains unpaid to: (a) comply with all applicable laws and orders of any government authorities having jurisdiction; (b) pay all taxes and charges so as to not cause a lien, mortgage or any burden or rights on any of guarantor's assets; (c) and sign any document reasonably requested by the bank. Also, the guarantors may not, without the bank's prior written consent, undertake or guarantee any other obligation of any individual or entity or sell, lease or dispose of a material part of their assets. Each guarantor is jointly and severally liable for all debts with each other guarantor.

We did not and do not intend to pay any compensation to any of the guarantors for the guarantees.

#### **Contractual obligations**



This table summarizes our known contractual obligations and commercial commitments at December 31, 2009.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facilities	\$ 14,787,715	\$ 14,787,715	\$ -	\$ -	\$ -
Purchase Obligations (1)	\$ 10,738,714	\$ 10,738,714	\$ -	\$ -	\$ -
License Agreement	\$ 1,071,787	\$ 1,071,787	\$ -	\$ -	\$ -
<b>Total</b>	\$ 26,598,215	\$ 26,598,215	\$ -	\$ -	\$ -

(1) Primarily represents obligations to purchase specified quantities of raw materials.

### Inflation and Seasonality

Inflation and seasonality have not had a significant impact on our operations during the last two fiscal years.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet debt, nor do we have any transactions, arrangements or relationships with any special purpose entities.

### New Accounting Pronouncements

ASC 805, Business Combinations (“ASC 805”) (formerly included under Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations) contains guidance that was issued by the FASB in December 2007. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with certain exceptions. Additionally, the guidance requires changes to the accounting treatment of acquisition related items, including, among other items, transaction costs, contingent consideration, restructuring costs, indemnification assets and tax benefits. ASC 805 also provides for a substantial number of new disclosure requirements. ASC 805 also contains guidance that was formerly issued as FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies which was intended to provide additional guidance clarifying application issues regarding initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. ASC 805 was effective for business combinations initiated on or after the first annual reporting period beginning after December 15, 2008. The Company implemented this guidance effective January 1, 2009. Implementing this guidance did not have an effect on the Company’s financial position or results of operations; however it will likely have an impact on the Company’s accounting for future business combinations, but the effect is dependent upon acquisitions, if any, that are made in the future.

In March 2008, the FASB issued ASC 815 (formerly SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133”) to amend and expand the disclosures about derivatives and hedging activities. The standard requires enhanced qualitative disclosures about an entity’s objectives and strategies for using derivatives, and tabular quantitative disclosures about the fair value of derivative instruments and gains and losses on derivatives during the reporting period. This standard is effective for both fiscal years and interim periods that begin after November 15, 2008. The adoption of this standard on December 29, 2008, the beginning of the Company’s fiscal year, did not have a material impact on its consolidated financial statements.

ASC 855, Subsequent Events (“ASC 855”) (formerly Statement of Financial Accounting Standards No. 165, Subsequent Events) includes guidance that was issued by the FASB in May 2009, and is consistent with current auditing standards in defining a subsequent event. Additionally, the guidance provides for disclosure regarding the existence and timing of a company’s evaluation of its subsequent events. ASC 855 defines two types of subsequent events, “recognized” and “non-recognized”. Recognized subsequent events provide additional evidence about conditions that existed at the date of the balance sheet and are required to be reflected in the financial statements. Non-recognized subsequent events provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date and, therefore, are not required to be reflected in the financial statements. However, certain non-recognized subsequent events may require disclosure to prevent the financial statements from being misleading. This guidance was effective prospectively for interim or annual financial periods ending after June 15, 2009. The Company implemented the guidance included in ASC 855 as of April 1, 2009. The effect of implementing this guidance was not material to the Company’s financial position or results of operations.

In August 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-05, which amends ASC Topic 820, Measuring Liabilities at Fair Value, which provides additional guidance on the measurement of liabilities at fair value. These amended standards clarify that in circumstances in which a quoted price in an active market for the identical liability is not available, we are required to use the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities, or quoted prices for similar liabilities when traded as assets. If these quoted prices are not available, we are required to use another valuation technique, such as an income approach or a market approach. These amended standards are effective for us beginning in the fourth quarter of fiscal year 2009. There was no material impact upon the adoption of this standard on the Company’s consolidated financial statements.

In September 2009, the FASB issued ASU 2009-06, Income Taxes (Topic 740), “Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities”, which provides implementation guidance on accounting for uncertainty in income taxes, as well as eliminates certain disclosure requirements for nonpublic entities. For entities that are currently applying the standards for accounting for uncertainty in income taxes, this update shall be effective for interim and annual periods ending after September 15, 2009. For those entities that have deferred the application of accounting for uncertainty in income taxes in accordance with paragraph 740-10-65-1(e), this update shall be effective upon adoption of those standards. The adoption of this standard is not expected to have an impact on the Company’s consolidated financial position and results of operations since this accounting standard update provides only implementation and disclosure amendments.

In September 2009, the FASB has published ASU 2009-12, “Fair Value Measurements and Disclosures (Topic 820) - Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)”. This ASU amends Subtopic 820-10, “Fair Value Measurements and Disclosures – Overall”, to permit a reporting entity to measure the fair value of certain investments on the basis of the net asset value per share of the investment (or its equivalent). This ASU also requires new disclosures, by major category of investments including the attributes of investments within the scope of this amendment to the Codification. The guidance in this update is effective for interim and annual periods ending after December 15, 2009. Early application is permitted. The Company is in the process of evaluating the impact of this standard on its consolidated financial position and results of operations.

In October 2009, the FASB has published ASU 2009-13, “Revenue Recognition (Topic 605)-Multiple Deliverable Revenue Arrangements”, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria in Subtopic 605-25, “Revenue Recognition-Multiple-Element Arrangements”, for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and also requires expanded disclosures. The guidance in this update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial position and results of operations.

ASC 105, Generally Accepted Accounting Principles (“ASC 105”) (formerly SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162), reorganized by topic existing accounting and reporting guidance issued by the Financial Accounting Standards Board (“FASB”) into a single source of authoritative generally accepted accounting principles (“GAAP”) to be applied by nongovernmental entities. All guidance contained in the Accounting Standards Codification (“ASC”) carries an equal level of authority. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Accordingly, all other accounting literature will be deemed “non-authoritative”. ASC 105 is effective on a prospective basis for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented the guidance included in ASC 105 as of July 1, 2009. The implementation of this guidance changed the Company’s references to GAAP authoritative guidance but did not impact the Company’s financial position or results of operations.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 (ASU 2010-06), Fair Value Measurements and Disclosures which amends ASC Topic 820, adding new requirements for disclosures for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010 (the Company's fiscal year 2012); early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2009-14 on its financial statements.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### *Credit Risk*

We are exposed to credit risk from our cash at bank, fixed deposits and contract receivables. The credit risk on cash at bank and fixed deposits is limited because the counterparts are recognized financial institutions. Contract receivables are subject to credit evaluations. We periodically record a provision for doubtful collections based on an evaluation of the collectibility of contract receivables by assessing, among other factors, the customer's willingness or ability to pay, repayment history, general economic conditions and our ongoing relationship with the customers.

### *Foreign Currency and Exchange Risk*

The Company maintains its financial statements in the functional currency of Renminbi ("RMB"). Substantially all of our operations are conducted in the PRC and we pay the majority of our expenses in RMB. Approximately 75% of our sales are made in U.S. Dollars. During the year ended December 31, 2009, the exchange rate of the RMB to the U.S. Dollar increased approximately 0.1% from the level at the end of December 31, 2008. This fluctuation resulted in a slight increase in our material costs during the year ended December 31, 2009. A future appreciation of the RMB against the U.S. Dollar would increase our costs when translated into U.S. Dollars and could adversely affect our margins unless we make sufficient offsetting sales. Conversion of RMB into foreign currencies is regulated by the People's Bank of China through a unified floating exchange rate system. Although the PRC government has stated its intention to support the value of the RMB, there can be no assurance that such exchange rate will not continue to appreciate significantly against the U.S. Dollar. Exchange rate fluctuations may also affect the value, in U.S. Dollar terms, of our net assets. In addition, the RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. Due to the volatility of the US Dollar to our functional currency the Company put into place in 2009 a hedging program to attempt to protect it from significant changes to the US Dollar which affect the value of its US dollar receivables and sales. At December 31, 2009, the Company had a series of currency forwards totaling a notional amount US\$6,500,000 expiring from January 2010 to July 2010. The terms of these derivative contracts are generally for 12 months or less. Changes in the fair value of these derivative contracts are recorded in earnings to offset the impact of foreign currency transaction gains and losses. The net gains of 214,092 attributable to these activities are included in "other expenses" for the year ended December 31, 2009.

### *Country Risk*

The substantial portion of our business, assets and operations are located and conducted in Hong Kong and China. While these economies have experienced significant growth in the past twenty years, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of Hong Kong and China, but may also have a negative effect on us. For example, our operating results and financial condition may be adversely affected by government control over capital investments or changes in tax regulations applicable to us. If there are any changes in any policies by the Chinese government and our business is negatively affected as a result, then our financial results, including our ability to generate revenues and profits, will also be negatively affected.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this Item 8 is incorporated by reference to information begins on Page F-1 of this Form 10-K.

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

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### *(a) Evaluation of disclosure controls and procedures*

Disclosure controls and procedures are internal controls and other internal audit procedures that are designed and adopted by management to ensure that information required to be disclosed by us in the reports that we file or submit under the Security Exchange Act 1934 is properly recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and regulations. Disclosure controls and procedures include, without limitation, internal controls and internal audit procedures designed to ensure that all necessary information required to be disclosed by the Company in the reports that we file or submit under the Security Exchange Act 1934 is properly recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this Annual Report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

#### *(b) Management's Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, 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 and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. 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. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that as of December 31, 2009, our internal control over financial reporting is effective based on those criteria.

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.

*(c) Changes in internal control over financial reporting*

The Company has engaged Victory Consultants Limited, an independent internal control consulting firm, to evaluate our SOX 404 internal control and procedures. The primary objective is to streamline our internal control structure. The consulting firm will study and examine our well-defined line of responsibility and delegation of authority for our functional operation areas so that they can evaluate whether responsibility lines are clearly drawn. Then, they will introduce a comprehensive system with key auditable internal control and procedures integrated. The consulting company will help develop an internal control environment that allows continuous input by various levels of management and employees with an effective and efficient information flow and internal communication network. A periodic risk assessment exercise will be performed to enhance our system's integrity and to assess areas of risk. Our internal control department will develop additional control activities to ensure the effective function of our controls. The internal audit department will directly report to our audit committee. The anticipated changes in internal control over financial reporting will enhance our control environment with improving internal information flow and communication network. We will identify new risks through a constant risk assessment process and make our control activities an effective tool of monitoring our internal controls. The pillar of our internal control improvement is the audit committee of the board of directors that interacts with our internal control department, top management, and our external auditors to ensure a proper and reliable financial report with a reasonable assurance. Other than as described above, there have not been any changes in the Company's internal control over financial reporting during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting..

## **ITEM 9B. OTHER INFORMATION**

On November 24, 2009, Shenzhen Highpower Technology Co., Ltd. entered into an Agreement of Line of Credit (the "Agreement") for a revolving line of credit in the amount of RMB100,000,000 (US\$14.65 million) with Bank of China Limited ("Bank of China"), which includes a RMB20,000,000 (US\$2.93) short-term line of credit, a RMB75,000,000 (US\$10.96 million) line of trade financing and a RMB5,000,000 (US\$732,000) line of foreign currency trading earnest money. The Agreement expires on November 23, 2010.

Each of Springpower Technology (Shenzhen) Co., Ltd., a wholly-owned subsidiary of Hong Kong Highpower Technology Co., Ltd., Dang Yu Pan, Wen Liang Li and Wen Wei Ma entered into a guarantee agreement to guarantee Shenzhen Highpower's obligations under the Agreement. The Company may not enter into any counter-guarantee agreement or similar agreement that impairs the rights of the Bank of China under the Agreement.

The following events constitute a default under the Agreement: failure to perform its payment or settlement obligations under the Agreement or any agreements entered into with the Bank of China pursuant to the Agreement; failure to use the funds for purposes as stated in the Agreement, breach of any representations in the Agreement or any agreements entered into with the Bank of China pursuant to the Agreement; failure to provide a new guarantee and replacement guarantor in circumstances including merger, sale of assets and bankruptcy; termination of business or bankruptcy; breach of any other agreements related to the Agreement default under any other contract with the Bank of China or its related organizations; and any guarantor's breach of the guarantee contract or default under any other contract with the Bank of China or its related organizations.

Upon the occurrence of any events of default under the Agreement, the Bank of China may require Shenzhen Highpower or the guarantors to correct the default within a specified time period; reduce, suspend or terminate the line of credit, the Agreement, or any other agreement between the parties in whole or in part; suspend or terminate the issuance of any loan not issued, any trading financing business and letter of guarantee not handled; accelerate the maturity of any amount outstanding under the Agreement; terminate or cancel the Agreement, terminate or cancel other agreements between Shenzhen Highpower and the Bank of China in whole or in part; require Shenzhen Highpower to indemnify losses caused by the default to the Bank of China; deduct any sum owed by the Bank of China from Shenzhen Highpower's bank account with the Bank of China; exercise its security interest; require the guarantors to undertake their guarantee responsibility; or any other measures deemed necessary by the Bank of China.

In the event that Shenzhen Highpower's total line of credit with all banks exceeds RMB140 million, the Bank of China may suspend credit issued to Shenzhen Highpower. Additionally, Shenzhen Highpower must obtain the consent of the Bank of China prior to applying for any credit from other commercial banks. In the event that Shenzhen Highpower fails to obtain the prior consent of the bank before obtaining such credit, the Bank of China may terminate the line of credit.

Shenzhen Highpower Technology Co., Ltd. entered into a new financing agreement with Shanghai Pudong Development Bank Co. Ltd. effective October 29, 2009 with terms substantially similar to the previous loan agreement, except that the amount granted has been increased to \$8.05 million. The new agreement expires on October 29, 2010. Pursuant to the new agreement, Shenzhen Highpower must obtain the bank's written approval before (i) decreasing its registered capital or conducting a significant structuring reform, such as a split, merger, reorganization, restructuring into a stockholding system, or canceling, dissolving, shutting-down, or changing its operational method by means of contracting, leasing, joint operation, or entrusting; (ii) the occurrence of any significant event related to its external investment or a transfer of its assets; or (iii) the occurrence of any significant ownership issues related to the ownership of its shares. The information included in this Item 9B is provided in accordance with Item 1.01 and Item 2.03 of Form 8-K.

### PART III

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

The following individuals constitute our board of directors and executive management:

Name	Age	Position
Dang Yu Pan	42	Chairman of the Board and Chief Executive Officer
Wen Liang Li	44	Vice President, Chief Technology Officer and Director
Wen Wei Ma	40	Vice President of Manufacturing
Henry Ngan	37	Chief Financial Officer
Wen Jia Xiao	33	Vice President of Quality Control
Xinhai Li	47	Director
Chao Li	65	Director
Ping Li	45	Director

**Dang Yu Pan** has been the Chairman of the Board and Chief Executive officer of the Company and HKHT since November 2007 and July 2003, respectively. Mr. Pan is the founder of Shenzhen Highpower and has served as the Chairman of the Board and Chief Executive Officer of Shenzhen Highpower since October 2002. From May 2001 to October 2002, Mr. Pan was the General Manager and Chairman of the Board of Guangzhou HaoPeng Technology Co., Ltd. From January 1997 to July 2000, Mr. Pan was the Vice General Manager of Nanhai Shida Battery Co., Ltd. From January 1995 to December 1996, Mr. Pan served as a director of the HuangPu Aluminum Factory. Additionally, from August 1990 to December 1994, Mr. Pan worked in the sales department of the Guangzhou Aluminum Products Factory. Mr. Pan received a bachelor's degree in metallurgical engineering from Central South University in China in 1990. We believe Mr. Pan's qualifications to sit on our Board include his extensive understanding of our business, our products and the battery industry that he has acquired over his 12 years working in the battery industry, including over 7 years as an officer and director of as a director of Shenzhen Highpower.

**Wen Liang Li** has been a director of the Company since November 2007 and a director of HKHT since July 2003. Since January 2003, Mr. Li has served as a director and as Vice General Manager and Chief Technology Officer of Shenzhen Highpower. From January 1996 to December 2002, Mr. Li served as Vice General Manager of Zhuhai Taiyi Battery Co., Ltd., a battery manufacturer. Mr. Li received a master's degree in Electrochemistry from the Harbin Institute of Technology in China in 1991. We believe that Mr. Li's 18 years of working experience in the battery industry, including 7 years as an officer and director of Shenzhen Highpower, well qualify Mr. Li to serve on our Board.

**Wen Wei Ma** has served as the Company's Vice President of Manufacturing since November 2007 and as a director of HKHT since July 2003. Mr. Ma has served as a director and as a Vice General Manager of Manufacturing of Shenzhen Highpower since October 2002. Mr. Ma received a diploma in chymic analysis from the Guangzhou Trade School of Light Industry in China in 1989.

**Henry Ngan** has served as the Chief Financial Officer of the Company since February 2009. Prior to joining the Company, Mr. Ngan had served as Vice President and Senior Equity Analyst at Brean Murray Carret & Co. in New York City since July 2008. Prior to that, Mr. Ngan served as an Equity Research Analyst at Buckingham Research Group in New York from June 2004 to January 2008 and at Robotti & Company from October 2002 until June 2004. Mr. Ngan received a bachelor's degree in Accounting from the University at Albany, State University of New York in 1995 and an MBA in Finance and Information & Communication Systems from Fordham University in 2004. Mr. Ngan is a Certified Public Accountant in the State of New York.

**Jia Wei Xiao** has served as Vice President of Quality Control of the Company since November 2007 and as Vice General Manager of Quality Control of Shenzhen Highpower since October 2005. From October 2002 to September 2005, Mr. Xhio served as the Minister of the Quality Control Department of Shenzhen Highpower. Mr. Xiao received a bachelor's degree in Check Technology and Instrument in 2000 from the China Institute of Metrology.

**Xinhai Li** has served as a director of the Company since January 2008. Since August 1990, Mr. Li has served as a director and professor at the China Central South University Metallurgical Science and Engineering School in China. Mr. Li received a PhD in Physical Chemistry of Metallurgy from China Central South University in August 1990. We believe that Mr. Li's qualifications to sit on our Board include his extensive understanding of our business and his understanding of U.S. GAAP and financial statements.

**Chao Li** has served as a director of the Company since January 2008. Since August 2000, Mr. Li has served as Chairman of the Guangdong Association of Productivity. From July 1991 to November 2004, Mr. Li served as the Vice-Chairman of the Development Research Center for the PRC Government of Guangdong Province. Mr. Li received a bachelor's degree in metallurgy from Central South University in China in August 1969. We believe that Mr. Li's qualifications to sit on our Board include his extensive understanding of our business and his understanding of U.S. GAAP and financial statements.

**Ping Li** has served as a director of the Company since January 2008. Since July 2003, Mr. Li has served as the Managing Director of Investment at ChinaVest, a venture capital firm. From February 2002 to July 2003, Mr. Li served as Chief Financial Officer of Great Wall Technology Co., Ltd., an investment technology company. Mr. Li received a master's degree in biology from Columbia University in 1989 and an MBA in finance in 1994 from the Wharton School of the University of Pennsylvania. We believe that Mr. Li's qualifications to sit on our Board include his knowledge of the capital market and his experience, expertise and background with respect to accounting matters, including his experience as a chief financial officer and familiarity with U.S. GAAP and financial statements.

### **Family Relationships**

There are no family relationships among any of the officers and directors.

### **Director Independence**

Subject to certain exceptions, under the listing standards of the NASDAQ Stock Market, LLC, a listed company's board of directors must consist of a majority of independent directors. Currently, our board of directors has determined that each of the non-management directors, Xinhai Li, Chao Li and Ping Li, is an "independent" director as defined by the listing standards of the NASDAQ Marketplace Rules currently in effect and approved by the U.S. Securities and Exchange Commission ("SEC") and all applicable rules and regulations of the SEC. All members of the Audit, Compensation and Nominating Committees satisfy the "independence" standards applicable to members of each such committee. The board of directors made this affirmative determination regarding these directors' independence based on discussion with the directors and on its review of the directors' responses to a standard questionnaire regarding employment and compensation history; affiliations, family and other relationships; and transactions with the Company. The board of directors considered relationships and transactions between each director or any member of his immediate family and the Company and its subsidiaries and affiliates. The purpose of the board of director's review with respect to each director was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent under the NASDAQ Marketplace Rules.

### **Board Committees**

#### *Audit Committee*

We established our Audit Committee in January 2008. The Audit Committee consists of Xinhai Li, Chao Li and Ping Li, each of whom is an independent director. Mr. Ping Li, Chairman of the Audit Committee, is an "audit committee financial expert" as defined under Item 407(d) of Regulation S-K. The purpose of the Audit Committee is to represent and assist our board of directors in its general oversight of our accounting and financial reporting processes, audits of the financial statements and internal control and audit functions. The Audit Committee's responsibilities include:

- The appointment, replacement, compensation, and oversight of work of the independent auditor, including resolution of disagreements between management and the independent auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or performing other audit, review or attest services.



- Reviewing and discussing with management and the independent auditor various topics and events that may have significant financial impact on our company or that are the subject of discussions between management and the independent auditors.

The board of directors has adopted a written charter for the Audit Committee. A copy of the Audit Committee Charter is posted on the Company's website at: [www.haopengbattery.com](http://www.haopengbattery.com).

#### ***Compensation Committee***

We established our Compensation Committee in January 2008. The Compensation Committee consists of Xinhai Li and Chao Li, each of whom is an independent director. Xinhai Li is the Chairman of the Compensation Committee. The Compensation Committee is responsible for the design, review, recommendation and approval of compensation arrangements for the Company's directors, executive officers and key employees, and for the administration of our equity incentive plans, including the approval of grants under such plans to our employees, consultants and directors. The Compensation Committee also reviews and determines compensation of our executive officers, including our Chief Executive Officer. The board of directors has adopted a written charter for the Compensation Committee. A current copy of the Compensation Committee Charter is posted on the Company's website at: [www.haopengbattery.com](http://www.haopengbattery.com).

#### ***Nominating Committee***

The Nominating Committee consists of Xinhai Li and Chao Li, each of whom is an independent director. Chao Li is the Chairman of the Nominating Committee. The Nominating Committee assists in the selection of director nominees, approves director nominations to be presented for stockholder approval at our annual general meeting and fills any vacancies on our board of directors, considers any nominations of director candidates validly made by stockholders, and reviews and considers developments in corporate governance practices. The board of directors has adopted a written charter for the Nominating Committee. A current copy of the Nominating Committee Charter is posted on the Company's website at: [www.haopengbattery.com](http://www.haopengbattery.com).

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

The Company's securities are currently registered under Section 12 of the Securities Exchange Act of 1934, as amended. As a result, and pursuant to Rule 16a-2, the Company's directors and officers and holders of 10% or more of its common stock are currently required to file statements of beneficial ownership with regards to their ownership of equity securities under Sections 13 or 16 of the Exchange Act. Based on a review of written representations from our executive officers and directors, other than a Form 4 for one transaction by Henry Ngan, we believe that during the fiscal year ended December 31, 2009, our directors, officers and owners of more than 10% of our common stock complied with all applicable filing requirements.

#### **Code of Ethics**

The Company's board of directors has adopted a Code of Business Conduct and Ethics, which applies to all directors, officers and employees. The purpose of the Code is to promote honest and ethical conduct. The Code is posted on the Company's Web site located at [www.haopengbattery.com](http://www.haopengbattery.com), and is available in print, without charge, upon written request to the Company at Hong Kong Highpower Technology, Inc., Building A1, Luoshan Industrial Zone, Shanxia, Pinghu, Longgang, Shenzhen, Guangdong, 518111, People's Republic of China. The Company intends to post promptly any amendments to or waivers of the Code on its Web site.

### **ITEM 11. EXECUTIVE COMPENSATION**

#### **Summary Compensation Table**

The following table sets forth information concerning the compensation for the fiscal years ended December 31, 2009 and 2008 of the principal executive officer.

The following table sets forth information concerning the compensation earned during the fiscal years ended December 31, 2009 and 2008 by our current Chief Executive Officer.

Name and Position	Year	Salary	Bonus	Stock Awards (1)	All other compensation	Total
Dang Yu Pan	2009	\$ 18,000	-	\$ -	\$ 25,000(2)	\$ 43,000
Chief Executive Officer and Chairman of the Board	2008	\$ 18,000	\$ -	\$ -	\$ 25,000(2)	\$ 43,000
Henry Ngan (3)	2009	\$ 137,500	-	\$ 137,870	\$ -	\$ 275,370
Chief Financial Officer and		\$	\$	\$	\$	\$

(1) The amounts disclosed reflect the value of awards for grants of restricted stock. These stock awards reflect the full grant date fair values in accordance with FASB ASC Topic 718.

(2) Includes \$25,000 for fees earned or paid in cash for service as a director of the Company.

(3) Mr. Ngan was appointed Chief Financial Officer and Corporate Secretary of the Company effective February 1, 2009.

#### Outstanding Equity Awards at 2009 Fiscal Year End

Name	Stock Awards			
	Number of shares of units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested (\$)
Henry Ngan	-	-	8,500(1)	\$ 65,535

(1) These shares vest on January 31, 2011.

#### Employment Agreements and Termination of Employment and Change of Control Arrangements

We entered into an Offer Letter of Employment with our new Chief Financial Officer, Henry Ngan, effective February 2009. Pursuant to the Offer Letter, Mr. Ngan is entitled to a base salary at an annual rate of \$150,000 and 17,000 shares of restricted common stock of the Company under the Company's 2008 Omnibus Incentive Plan, 8,500 of which vested on January 31, 2010 and 8,500 of which vest on January 31, 2011. Mr. Ngan is also entitled to reasonable vacation and sick time and reimbursement for the cost of standard medical and dental insurance premiums and for business expenses.

#### Director Compensation

The following table shows information regarding the compensation earned during the fiscal year ended December 31, 2009 by members of board of directors. Compensation information for Dang Yu Pan, our Chief Executive Officer and Chairman of the Board, is described in the summary compensation table above.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
Wen Liang Li	20,000	-	-	-	-	-	20,000
Chao Li	18,000	-	-	-	-	-	18,000
Xinhai Li	18,000	-	-	-	-	-	18,000
Ping Li	18,000	-	-	-	-	-	18,000

Dang Yu Pan and Wen Liang Li are management board members. We offer our management board members a total compensation package, which includes salary, bonus and director fees, based on benchmarks reported by Shenzhen Labor Bureau. Once we determine the total compensation for our management board members using the benchmarks, we allocate a portion of their total annual compensation to compensation for services rendered as board members. In the future, we expect to continue to allocate a portion of our management board members' total annual compensation as compensation for their service as directors.

We do not have a formal policy with respect to the compensation of our non-executive board members. We pay our non-executive directors for their services at the rate of \$1,500 to \$2,500 per month.

Directors are eligible to receive, from time to time, grants of options to purchase shares under our equity incentive plan.

#### Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2009 regarding compensation plans, including any individual compensation arrangements, under which equity securities of Hong Kong Highpower Technology, Inc. are authorized for issuance.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	-	\$ -	1,983,000(1)
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	-	N/A	1,983,000

(1) In October 2008, the Company adopted the 2008 Omnibus Incentive Plan. The Incentive Plan currently has 1,983,000 shares authorized for issuance.

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

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options and warrants held by that person that are currently exercisable or become exercisable within 60 days of March 29, 2010 are deemed outstanding even if they have not actually been exercised. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

The following table sets forth as of March 29, 2010 certain information with respect to beneficial ownership of our common stock based on 13,582,106 issued and outstanding shares of common stock, by:

- Each person known to be the beneficial owner of 5% or more of the outstanding common stock of our company;
- Each named executive officer;
- Each director; and

- All of the executive officers and directors as a group.

The number of shares of our common stock outstanding as of March 29, 2010 excludes 47,500 shares of our common stock issuable upon exercise of outstanding warrants. Unless otherwise indicated, the persons and entities named in the table have sole voting and sole investment power with respect to the shares set forth opposite the stockholder's name, subject to community property laws, where applicable. Unless otherwise indicated, the address of each stockholder listed in the table is c/o Building A1, Luoshan Industrial Zone, Shanxia, Pinghu, Longgang, Shenzhen, Guangdong, 518111, People's Republic of China.

Name and Address of Beneficial Owner	Title	Amount and Nature of Beneficial Ownership	Percent of Class
<i>Directors and Executive Officers</i>			
Dang Yu Pan	Chief Executive Officer and Chairman of the Board	4,396,035 (1)	32.41%
Wen Liang Li	Vice President, Chief Technology Officer and Director	2,034,770	14.98%
Wen Wei Ma	Vice President of Manufacturing	924,897	6.81%
Henry Ngan	Chief Financial Officer and Corporate Secretary	17,000	*
Xinhai Li	Director	-	-
Chao Li	Director	-	-
Ping Li	Director	-	-
Officers and Directors as a Group (total of 8 persons)		7,372,702 (1)	54.36%

\*less than 1%.

- (1) Includes (i) an aggregate of 603,962 shares over which Mr. Pan has voting power and the right to acquire ownership pursuant to a loan agreement dated February 5, 2007 between Mr. Pan and other shareholders, including, Wen Jia Xiao, Vice President of Quality Control, who holds 166,482 shares, and (ii) 369,959 shares held by a company that is 100% owned by Mr. Pan.

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

#### Hong Kong Highpower Technology Co., Ltd.

Hong Kong Highpower Technology Co., Ltd. ("HKHT"), a wholly-owned subsidiary of Hong Kong Highpower Technology, Inc., and each of HKHT's wholly owned subsidiaries Shenzhen Highpower Technology Co., Ltd., HZ Highpower Technology Co., Ltd. and Springpower Technology (Shenzhen) Company Limited, each have interlocking executive and director positions with the Company.

#### Guarantee Agreements

Dang Yu Pan, our Chairman and Chief Executive Officer, Wen Liang Li, our Vice President, Chief Technology Officer and director, and Wen Wei Ma, our Vice President of Manufacturing, each have provided personal guarantees under our outstanding banking facilities. The following table shows the amount outstanding on each of our bank loans as of December 31, 2008 and the identity of the officer(s) who guaranteed each loan.

Name of Bank	Amount Granted	Amount Outstanding Under Loan	Guaranteed by Officers
Bank Of China	\$14.65 million	\$7.07 million	Dang Yu Pan, Wen Liang Li, Wen Wei Ma
Shenzhen Development Bank Co., Ltd	\$1.34 million	\$1.34 million	Dang Yu Pan
Shanghai Pudong Development Bank Co. Ltd.	\$8.05 million	\$5.12 million	Dang Yu Pan
Citibank (China) Co., ltd.	\$2.99 million	\$1.26 million	Dang Yu Pan, Wen Liang Li, Wen Wei Ma

#### Policy for Approval of Related Party Transactions

We do not currently have a formal related party approval policy for review and approval of transactions required to be disclosed pursuant to Item 404 (a) of Regulation S-K.

#### Director Independence

See Item 10 “Directors, Officers and Corporation Governance” for a discussion of board member independence.

#### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The following table presents fees, including reimbursements for expenses, for professional audit services rendered by Dominic K.F. Chan & Co. for the audits of the Company’s annual financial statements and interim reviews of the Company’s quarterly financial statements for the years ended December 31, 2009 and December 31, 2008 and fees billed for other services rendered by Dominic K.F. Chan & Co. during those periods.

	Year ended December 31,	
	2009	2008
Audit Fees(1)	\$ 73,000	\$ 73,000
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	\$ 73,000	\$ 73,000

(1) These are fees for professional services performed by Dominic K.F. Chan & Co. for the audit of our annual financial statements, review of our quarterly reports, and review of our Registration Statement on Form S-1.

#### Pre-Approval Policy

The Audit Committee on an annual basis reviews audit and non-audit services performed by the independent registered public accounting firm for such services. The audit committee pre-approves (i) auditing services (including those performed for purposes of providing comfort letters and statutory audits) and (ii) non-auditing services that exceed a de minimis standard established by the committee, which are rendered to the Company by its outside auditors (including fees).

**PART IV**

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

1. Financial Statements: See “Index to Consolidated Financial Statements” in Part II, Item 7 of this annual report on Form 10-K.
2. Financial Statement Schedule: Not applicable.
3. Exhibits: The exhibits listed in the accompanying “Index to Exhibits” are filed or incorporated by reference as part of this Form 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Shenzhen, People’s Republic of China, on March 30, 2010.

**Hong Kong Highpower Technology, Inc.**  
(Registrant)

Dated: March 30, 2010

/s/ Dang Yu Pan

\_\_\_\_\_  
By: Dang Yu Pan  
Chief Executive Officer and  
Chairman of the Board (Principal Executive  
Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Dang Yu Pan</u> By: Dang Yu Pan	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 30, 2010
<u>/s/ Henry Ngan</u> By: Henry Ngan	Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2010
<u>/s/ Wen Liang Li</u> Wen Liang Li	Vice President, Chief Technology Officer and Director	March 30, 2010
<u>/s/ Xinhai Li</u> Xinhai Li	Director	March 30, 2010
<u>/s/ Chao Li</u> Chao Li	Director	March 30, 2010
<u>/s/ Ping Li</u> Ping Li	Director	March 30, 2010

## EXHIBIT INDEX

<u>Exhibit Number</u>	Description
2.1	Share Exchange Agreement, dated as of October 20, 2007, by and among the Registrant, Hong Kong Highpower Technology Company Limited and all of the shareholders of Hong Kong Highpower Technology Company Limited (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
3.1	Certificate of Incorporation (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form 10-SB (File No. 000-52103) filed with the Securities and Exchange Commission on July 5, 2006).
3.2	Bylaws (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form 10-SB (File No. 000-52103) filed with the Securities and Exchange Commission on July 5, 2006).
3.3	Articles of Merger Effecting Name Change (incorporated by reference from Exhibit 3.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
10.1	Form of Subscription Agreement (incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
10.2*	Amended Consumer Battery License Agreement, amended as of August 8, 2007, by and between Shenzhen Highpower Technology Co., Ltd and Ovonic Battery Company, Inc. (incorporated by reference from Exhibit 10.2 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 11, 2008).
10.3	State-owned Land Use Rights Grant Contract No. 441302 – B – 112 dated as of May 23, 2007, by and between the Land and Resources Bureau of Huizhou City, Guangdong Province and Shenzhen Highpower Technology Co., Ltd. (translated to English) (incorporated by reference from Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
10.4	Commercial Acceptance Bill Discount Quotation Agreement dated as of June 18, 2007 by and between Shenzhen Development Bank Shenzhen Ai Guo Road Branch and Shenzhen Highpower Technology Co., Ltd. (translated to English) (incorporated by reference from Exhibit 10.6 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
10.4(a)	Guaranty Contract for Maximum Credit Line dated as of June 18, 2007 by and between Dang Yu Pan and Shenzhen Development Bank Shenzhen Ai Guo Road Branch (translated to English) (incorporated by reference from Exhibit 10.5(a) to Amendment No. 1 to the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on January 28, 2008).
10.5	Facility Quotation Agreement dated as of September 18, 2007 by and between Shanghai Pudong Development Bank Shenzhen Long Hua Branch and Shenzhen Highpower Technology Co., Ltd. (translated to English) (incorporated by reference from Exhibit 10.7 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
10.5(a)	Contract for Guarantee of Maximum Line of Credit dated as of September 18, 2007 by and between Dang Yu Pan and Shanghai Pudong Development Bank Shenzhen Branch (translated to English) (incorporated by reference from Exhibit 10.6(a) to Amendment No. 1 to the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on January 28, 2008).

- 10.6 Form of Registration Rights Agreement entered into by and between the Registrant and WestPark Capital, Inc. Affiliates (incorporated by reference from Exhibit 10.7 to the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on June 4, 2008).
- 10.7 Non-Undertaking Short-Term Revolving Financing Agreement dated as of October 11, 2007 by and between Citibank China Co., Ltd. ("Lender") and Shenzhen Highpower Technology Co., Ltd. and corresponding Letters of Guarantee between Lender and Dang Yu Pan, Wen Wei Ma and Wen Liang Li (translated to English) (incorporated by reference from Exhibit 10.7 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 18, 2008).
- 10.8 Agreement on Line of Credit dated as of November 24, 2009 by and between the Bank of China Limited, Shenzhen Buji Subbranch and Shenzhen Highpower Technology Co., Ltd. (translated to English).
- 10.9 Form of Guaranty Contract of Maximum Amount by and between the Bank of China Limited, Shenzhen Buji Subbranch and the individuals and entities indicated in Schedule A attached to the Form of Guaranty (translated to English).
- 21.1 List of Subsidiaries (incorporated by reference from Exhibit 21.1 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 9, 2009).
- 23.1 Consent of Dominic K.F. Chan & Co.
- 31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* The Registrant received from the Securities and Exchange Commission an order dated June 9, 2008 granting confidential treatment under the Securities Exchange Act of 1934.

\*\* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.



**HONG KONG HIGHPOWER TECHNOLOGY, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Hong Kong Highpower Technology, Inc.

We have audited the accompanying consolidated balance sheets of Hong Kong Highpower Technology Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2009 and 2008, and the related statements of operations, stockholders' equity and comprehensive income, and cash flows for the years ended December 31, 2009, 2008 and 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years ended December 31, 2009, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Dominic K.F. Chan & Co., Certified Public Accountants  
Dominic K.F. Chan & Co  
Certified Public Accountants  
Hong Kong  
Date: March 30, 2010

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(Stated in US Dollars)

	<i>At December 31,</i>	
	<i>2009</i>	<i>2008</i>
	<u>\$</u>	<u>\$</u>
<b>ASSETS</b>		
Current Assets :		
Cash and cash equivalents	2,967,586	4,175,780
Restricted cash	5,478,418	4,845,478
Accounts receivable	14,896,503	8,765,593
Notes receivable	596,795	429,815
Prepaid expenses and other receivables – <i>Note 7</i>	2,366,734	1,732,709
Deferred charges – Stock-based compensation – <i>Note 8</i>	-	216,667
Inventories – <i>Note 11</i>	10,633,566	11,208,697
<b>Total Current Assets</b>	<b>36,939,602</b>	<b>31,374,739</b>
Deferred tax assets – <i>Note 6</i>	-	104,556
Plant and equipment, net – <i>Note 12</i>	10,284,873	7,778,477
Leasehold land – <i>Note 13</i>	3,019,509	3,050,510
Intangible asset, net – <i>Note 14</i>	850,000	900,000
Investment securities – <i>Note 15</i>	52,732	-
Currency forward – <i>Note 17</i>	-	116,157
<b>TOTAL ASSETS</b>	<b><u>51,146,716</u></b>	<b><u>43,324,439</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities :		
Non-trading foreign currency derivatives liabilities – <i>Note 17</i>	11,041	293,830
Accounts payable	10,738,714	8,306,123
Other payables and accrued liabilities – <i>Note 19</i>	3,563,308	3,139,275
Income taxes payable	876,739	476,330
Bank borrowings – <i>Note 20</i>	14,787,714	14,829,228
<b>Total Current Liabilities</b>	<b><u>29,977,516</u></b>	<b><u>27,044,786</u></b>
<b>COMMITMENTS AND CONTINGENCIES – <i>Note 22</i></b>		

(continued)

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS *(continued)*  
(Stated in US Dollars)

	<i>At December 31,</i>	
	<i>2009</i>	<i>2008</i>
	<u>\$</u>	<u>\$</u>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock		
Par value: \$0.0001		
Authorized: 10,000,000 shares		
Issued and outstanding: none	-	-
<b>Common stock</b>		
Par value : \$0.0001		
Authorized: 100,000,000 shares		
Issued and outstanding: 2009 –13,582,106 shares (2008 –13,562,596 shares)	1,358	1,356
Additional paid-in capital	5,065,426	5,048,194
Accumulated other comprehensive income	2,023,858	1,595,091
Retained earnings	<u>14,078,558</u>	<u>9,635,012</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>21,169,200</u>	<u>16,279,653</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>51,146,716</u>	<u>43,324,439</u>

See accompanying notes to consolidated financial statements

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Stated in US Dollars)

	<i>Years Ended December 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net sales	70,331,277	75,004,242	73,261,720
Cost of sales	(55,299,955)	(62,238,982)	(63,791,248)
Gross profit	15,031,322	12,765,260	9,470,472
Depreciation	(270,078)	(194,496)	(120,517)
Selling and distribution costs	(2,354,967)	(2,416,220)	(2,095,594)
General and administrative costs including stock-based compensation	(6,404,724)	(6,097,580)	(3,460,592)
Loss on exchange rate difference	(60,294)	(1,182,076)	(854,873)
Fees and costs related to reorganization	-	-	(582,269)
Income from operations	5,941,259	2,874,888	2,356,627
Change in fair value of currency forwards – <i>Note 17</i>	(117,171)	115,568	-
Change in fair value of warrants – <i>Note 18</i>	-	(276,000)	-
Other income – <i>Note 3</i>	509,294	463,142	148,653
Interest expense – <i>Note 4</i>	(527,940)	(642,161)	(696,132)
Other expenses – <i>Note 5</i>	(214,092)	-	-
Income before taxes	5,591,350	2,535,437	1,809,148
Income taxes – <i>Note 6</i>	(1,147,804)	(528,950)	(145,458)
Net income	<u>4,443,546</u>	<u>2,006,487</u>	<u>1,663,690</u>
Net Income per common share			
- Basic	<u>0.33</u>	<u>0.15</u>	<u>0.17</u>
- Diluted	<u>0.33</u>	<u>0.15</u>	<u>0.17</u>
Weighted average common shares outstanding			
- Basic	<u>13,608,265</u>	<u>13,205,599</u>	<u>9,832,493</u>
- Diluted	<u>13,667,697</u>	<u>13,233,353</u>	<u>9,832,493</u>

See accompanying notes to consolidated financial statements

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
Stated in US Dollars)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
	Shares	Amount				
		\$	\$	\$	\$	\$
Balance, January 1, 2007	9,248,973	925	63,392	470,383	6,630,017	7,164,717
Shares Issued in connection with reverse merger	1,777,128	178	(35,345)	-	-	(35,167)
Shares issued in private placement, net of offering cost of \$382,000	1,772,745	177	2,737,823	-	-	2,738,000
Comprehensive income						
Net income	-	-	-	-	1,663,690	1,663,690
Foreign currency translation adjustments	-	-	-	687,489	-	687,489
Total comprehensive income	-	-	-	-	-	2,351,179
Dividends	-	-	-	-	(665,182)	(665,182)
Balance, December 31, 2007	12,798,846	1,280	2,765,870	1,157,872	7,628,525	11,553,547
Gross proceeds from shares sold in offering – interim closing	160,000	16	519,984	-	-	520,000
Gross proceeds from shares sold in offering – final closing	603,750	60	1,486,340	-	-	1,486,400
Stock based compensation	-	-	276,000	-	-	276,000
Comprehensive income						
Net income	-	-	-	-	2,006,487	2,006,487
Foreign currency translation adjustments	-	-	-	731,049	-	731,049
Net deferred loss from cash flow hedges	-	-	-	(293,830)	-	(293,830)
Total comprehensive income	-	-	-	-	-	2,443,706
Balance, December 31, 2008	13,562,596	1,356	5,048,194	1,595,091	9,635,012	16,279,653
Common stock issued under Omnibus incentive plan	17,000	2	17,232	-	-	17,234
Exercise of warrants	2,510	-	-	-	-	-
Comprehensive income						
Net income	-	-	-	-	4,443,546	4,443,546
Foreign currency translation adjustments	-	-	-	145,978	-	145,978
Settlement of Cash Flow Hedges	-	-	-	293,830	-	293,830
Net deferred loss from cash flow hedges	-	-	-	(11,041)	-	(11,041)
Total comprehensive income	-	-	-	-	-	4,872,313
Balance, December 31, 2009	<u>13,582,106</u>	<u>1,358</u>	<u>5,065,426</u>	<u>2,023,858</u>	<u>14,078,558</u>	<u>21,169,200</u>

See accompanying notes to consolidated financial statements

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Stated in US Dollars)

	<i>Years ended December 31,</i>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Cash flows from operating activities</b>			
Net income	4,443,546	2,006,487	1,663,690
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities :			
Bad debts written off	74,112	4,460	3,649
Depreciation	1,088,341	838,725	560,073
Amortization of intangible asset	50,000	50,000	50,000
Amortization of leasehold land	62,798	61,939	-
Loss on disposal of plant and equipment	151,825	44,198	20,046
Change in fair value of currency forwards	117,171	(115,568)	-
Change in fair value of warrants	-	276,000	-
Stock based compensation	233,897	303,333	-
Changes in operating assets and liabilities :			
(Increase) decrease in -			
Accounts receivable	(6,102,967)	8,095,692	(7,018,013)
Notes receivable	(164,724)	(40,702)	(309,829)
Prepaid expenses and other receivables	(606,750)	2,093,103	305,785
Inventories	691,174	4,046,251	2,183,344
Increase (decrease) in -			
Accounts payable	2,341,687	(12,422,508)	1,082,433
Other payables and accrued liabilities	382,470	721,654	78,974
Income taxes payable	500,216	321,781	(74,825)
Net cash provided by (used in) operating activities	<u>3,262,796</u>	<u>6,284,845</u>	<u>(1,454,673)</u>
<b>Cash flows from investing activities</b>			
Acquisition of plant and equipment	(3,661,111)	(4,614,385)	(1,030,725)
Acquisition of land	-	-	(2,832,348)
Proceeds from Investment securities	(52,641)	-	-
Proceeds from disposal of plant and equipment	-	-	32,976
Deposit paid for acquisition of machinery	-	-	(1,115,123)
Net cash used in investing activities	<u>(3,713,752)</u>	<u>(4,614,385)</u>	<u>(4,945,220)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common stock	-	1,486,400	2,738,000
Proceeds from new short-term bank loans	2,924,518	2,932,586	2,374,241
Repayment of short-term bank loans	(2,995,847)	(2,573,781)	(923,316)
Proceeds from/(repayment of) other loans	-	(5,316,389)	4,173,106
Net advancement of other bank borrowings	(124,949)	3,414,456	3,155,109
Decrease / (Increase) in restricted cash	(581,261)	946,508	(4,234,327)
Repayment from / (Advance to) related parties	-	-	726,169
Dividend paid	-	-	(665,182)
Net cash provided by financing activities	<u>(777,539)</u>	<u>889,780</u>	<u>7,343,800</u>
Net increase in cash and cash equivalents	(1,228,495)	2,560,240	943,907
Effect of foreign currency translation on cash and cash equivalents	20,301	126,278	57,285
Cash and cash equivalents - beginning of year	<u>4,175,780</u>	<u>1,489,262</u>	<u>488,070</u>
Cash and cash equivalents - end of year	<u>2,967,586</u>	<u>4,175,780</u>	<u>1,489,262</u>

See accompanying notes to consolidated financial statements

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**1. Organization and Basis of Presentation**

Hong Kong Highpower Technology, Inc. (“Highpower” or the “Company,” formerly known as SRKP 11, Inc.) was incorporated in the State of Delaware on January 3, 2006 to locate a suitable acquisition candidate to acquire.

The Company’s wholly owned subsidiary, Hong Kong Highpower Technology Company Limited, a company incorporated in Hong Kong (“HKHTC”), was organized principally to engage in the manufacturing and trading of nickel metal hydride rechargeable batteries.

As used herein, the “Company” refers to Highpower and its wholly-owned subsidiaries, unless the context indicates otherwise.

In January 2008, HKHTC invested \$749,971 in HZ Highpower Technology Co., Ltd. (“HZ Highpower”). HZ Highpower is a wholly-owned subsidiary of HKHTC. HZ Highpower has not commenced business as at December 31, 2009.

On June 20, 2008, HKHTC invested \$250,000 in Spring Power Technology (Shenzhen) Co., Ltd. (“SZ Spring Power”, formerly known as Sure Power Technology (Shenzhen) Co., Ltd.) which became a wholly-owned subsidiary of HKHTC. On July 9, 2008, HKHTC invested an additional \$750,000 in SZ Spring Power. SZ Spring Power commenced business in June 2008 and specializes in researching and manufacturing Lithium-ion rechargeable batteries.

On June 19, 2008, the Company effected a 5-for-8 reverse stock split of the Company’s issued and outstanding shares of common stock (the Reverse Stock Split”). The par value and number of authorized shares of the common stock remained unchanged. All references to number of shares and per share amounts included in these consolidated financial statements and the accompanying notes have been adjusted to reflect the Reverse Stock Split retroactively.

The Company’s common stock commenced trading on the Nasdaq Global Market on December 21, 2009. Prior to December 21, 2009, shares of the Company’s common stock were listed for trading on the NYSE Amex.

On June 19, 2008, the Company issued 603,750 shares of common stock upon the closing of a public offering. The Company’s sale of common stock, which was sold indirectly by the Company to the public at a price of \$3.25 per share, resulted in net proceeds of \$1,486,400. These proceeds were net of underwriting discounts and commissions, fees for legal and auditing services, and other offering costs.



HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

**1. Organization and Basis of Presentation (continued)**

On June 19, 2008, the Company issued 160,000 shares of common stock upon the closing of the public offering. The shares are treated as compensation for investor relations services. The services provided are for the period of one year from the date of June 19, 2008, subsequent to the one-year contract with this investor relations firm, the contract has already expired.

On November 18, 2009, HKHTC invested an additional \$1,227,487 in SZ Highpower.

Description of business

The subsidiaries of the Company include the following:

Name of company	Place and date of incorporation	Attributable equity interest held	Principal activities
Hong Kong Highpower Technology Co., Ltd ("HKHTC")	Hong Kong Jul 4, 2003	100%	Investment holding
Shenzhen Highpower Technology Co., Ltd ("SZ Highpower")	PRC Oct 8, 2002	100%	Manufacturing of batteries
HZ Highpower Technology Co., Ltd ("HZ Highpower")	PRC Jan 29, 2008	100%	Inactive
Spring Power Technology (Shenzhen) Co., Ltd ("SZ Spring Power")	PRC Jun 4, 2008	100%	Manufacturing of batteries

**2. Summary of significant accounting policies**

Basis of presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**2. Summary of significant accounting policies (continued)**

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

On June 29, 2009, the Financial Accounting Standards Board (the "FASB") established the FASB Accounting Standards Codification (the "Codification") as the single source of authoritative U.S. generally accepted accounting principles ("GAAP") for all nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (the "SEC") are also sources of authoritative U.S. GAAP for SEC registrants. The Codification does not change U.S. GAAP but takes previously issued FASB standards and other U.S. GAAP authoritative pronouncements, changes the way the standards are referred to, and includes them in specific topic areas. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of the Codification did not have any impact on the Company's financial statements.

Use of estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. These accounts and estimates include, but are not limited to, the valuation of accounts receivable, inventories, deferred income taxes and the estimation on useful lives of plant and equipment. Actual results could differ from those estimates.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**2. Summary of significant accounting policies (continued)**

Economic and political risks

The Company's operations are conducted in the People's Republic of China (the "PRC"). Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC and by the general state of the PRC economy.

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

Concentrations of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of accounts receivable. The Company extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral or other security. In order to minimize the credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Further, the Company reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced. Other than set forth below, no customers represented 10% or more of the Company's net sales and accounts receivable.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Concentrations of credit risk (Continued)

A substantial percentage of the Company's sales are made to the following customers. Details of the customers accounting for 10% or more of total net revenue in any of the years ended December 31, 2009, 2008 and 2007 are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Company A	20%	23%	24%
Company B	*	*	17%
	<u>20%</u>	<u>23%</u>	<u>41%</u>

\* Less than 10%

Details of the accounts receivable from the customers with the largest receivable balances at of December 31, 2009 and 2008 are as follows:

	<u>Percentage of accounts receivable</u>	
	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Company A	27%	17%
Company B	*	14%
Company C	*	13%
Company D	15%	*
* Less than 10%		
Largest receivable balances	<u>42%</u>	<u>44%</u>

Cash and cash equivalents

Cash and cash equivalents include all cash, deposits in banks and other liquid investments with initial maturities of three months or less.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

2. **Summary of significant accounting policies (continued)**

Restricted cash

Certain cash balances are held as security for short-term bank borrowings and are classified as restricted cash in the Company's balance sheets.

Accounts receivable

Accounts receivable are stated at the original amount less an allowance made for doubtful receivables, if any, based on a review of all outstanding amounts at period end. An allowance is also made when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Bad debts are written off when identified. The Company extends unsecured credit to customers in the normal course of business and believes all accounts receivable in excess of the allowances for doubtful receivables to be fully collectible. The Company does not accrue interest on trade accounts receivable.

During the years ended December 31, 2009, 2008 and 2007, the Company experienced bad debts of \$74,112, \$4,460 and \$3,649, respectively.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined on a weighted average basis and includes purchase costs, direct labor and factory overheads. There are no significant freight charges, inspection costs and warehousing costs incurred for any of the periods presented. In assessing the ultimate realization of inventories, management makes judgments as to future demand requirements compared to current or committed inventory levels. The Company's reserve requirements generally increase based on management's projected demand requirements, and decrease due to market conditions and product life cycle changes. During the years ended December 31, 2009, 2008 and 2007, the Company's allowance for slow-moving or defective inventories were \$274,909 in 2009 and nil in 2008 and 2007. The Company's production process results in a minor amount of waste materials. The Company does not record a value for the waste in its cost accounting. The Company records proceeds on an as realized basis, when the waste is sold. The Company has offset the proceeds from the sales of waste materials as a reduction of production costs. Proceeds from the sales of waste materials were approximately \$213,849 in 2009, \$412,311 in 2008 and \$160,000 in 2007. Generally, waste materials on hand at the end of a year are nominal.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**2. Summary of significant accounting policies (continued)**Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use. Maintenance, repairs and betterments, including replacement of minor items, are charged to expense; major additions to physical properties are capitalized.

Depreciation of plant and equipment is provided using the straight-line method over their estimated useful lives at the following annual rates:

Buildings	5% - 10%
Furniture, fixtures and office equipment	20%
Leasehold improvement	50%
Machinery and equipment	10%
Motor vehicles	20%

Upon sale or disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount less proceeds from disposal is charged or credited to income.

Construction in progress represents the properties and plant and machinery in the course of development for production or buildings under development and are stated at cost, less any identified impairment losses. When the construction is completed and the asset is ready for its intended use, the related cost is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the above policy.

Investment Securities

Investments in less than twenty percent owned entities are accounted for under the cost basis and are reviewed for impairment periodically.

The Company has strategic investments in certain equity securities that are included in noncurrent "Investment securities" on its Consolidated Balance Sheets accounted for using the cost method of accounting.

The Company's ability to realize value from its strategic investments in companies that are not publicly traded depends on the success of those companies' businesses and their ability to obtain sufficient capital to execute their business plans. Because private markets are not as liquid as public markets, there is also increased risk that the Company will not be able to sell these investments, or that when the Company desires to sell them it will not be able to obtain fair value for them.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

2. **Summary of significant accounting policies** (*continued*)

Intangible Assets and Long-Lived Assets

FASB ASC 350 "Intangibles – Goodwill and Other," requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. Accordingly, the consumer battery license is being amortized over its useful life of 20 years. The Company does not have any goodwill.

The Company accounts for the impairment of long-lived assets, such as plant and equipment, leasehold land and intangible assets, under the provisions of FASB ASC 360 "Property, Plant and Equipment – Overall." ASC 360 establishes the accounting for impairment of long-lived tangible and intangible assets other than goodwill and for the disposal of a business. Pursuant to ASC 360, the Company periodically evaluates, at least annually, whether facts or circumstances indicate that the carrying value of its depreciable assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. In the event that the carrying amount of long-lived assets exceeds the undiscounted future cash flows, then the carrying amount of such assets is adjusted to their fair value. The Company reports an impairment cost as a charge to operations at the time it is recognized.

There was no impairment of long-lived assets in 2007, 2008 or 2009.

Revenue recognition

The Company recognizes revenue when the goods are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Sales of goods represent the invoiced value of goods, net of sales returns, trade and allowances.

The Company does not have arrangements for returns from customers and does not have any future obligations directly or indirectly related to product resales by the customer. The Company has no incentive programs.

Advertising and promotion expenses

Advertising and promotion expenses are charged to expense as incurred.

Advertising and promotion expenses amounted to \$30,100, \$48,210 and \$68,169 for the years ended December 31, 2009, 2008 and 2007, respectively, and are included in selling and distribution costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

2. **Summary of significant accounting policies** (*continued*)

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in consolidated statements of income in the period that includes the enactment date or date of change in tax rate. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company adopted FASB ASC 740, "Accounting for Uncertainty in Income Taxes" clarifies the accounting for uncertain tax positions. This interpretation requires that an entity recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as a component of income tax expense in the consolidated statements of income. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances, which are not clearly defined. In the case of a related party transaction, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion. The adoption of ASC 740 did not have a significant effect on the consolidated financial statements.

Comprehensive income

The Company has adopted FASB ASC 220 "Comprehensive income," which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Accumulated other comprehensive income represents the accumulated balance of foreign currency translation adjustments of the Company.



HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Foreign currency translation

The functional currency of the Company is the Renminbi (“RMB”). The Company maintains its financial statements in the functional currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective year.

For financial reporting purposes, the financial statements of the Company, which are prepared using the functional currency, are then translated into United States dollars. Assets and liabilities are translated at the exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and stockholders’ equity is translated at historical exchange rates. Any translation adjustments resulting are not included in determining net income but are included in foreign exchange adjustment in other comprehensive income, a component of stockholders’ equity.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Year end RMB : US\$ exchange rate	6.827	6.898	7.332
Average yearly RMB : US\$ exchange rate	6.839	6.933	7.581

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that RMB amounts could have been, or could be, converted into US\$ at rates used in translation.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the approximate rates of exchange ruling on the transaction date. Exchange gains and losses resulting from this translation policy are recognized in the statements of operations.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**2. Summary of significant accounting policies (continued)**

Fair value of financial instruments

The carrying values of the Company's financial instruments, including cash and cash equivalents, restricted cash, trade and other receivables, deposits, trade and other payables, approximate their fair values due to the short-term maturity of such instruments. The carrying amounts of borrowings approximate their fair values because the applicable interest rates approximate current market rates.

The Company is exposed to certain foreign currency risk from export sales transactions and the related accounts receivable as they will affect the future operating results of the Company.

Foreign currency derivative

From time to time the Company may utilize forward foreign currency exchange contracts to reduce the impact of foreign currency exchange rate risks. Forward contracts are cash flow hedges of the Company's foreign currency exposures and are recorded at the contract's fair value. The effective portion of the forward contract is initially reported in "Accumulated other comprehensive income," a component of shareholders' equity, with a corresponding asset or liability recorded based on the fair value of the forward contract. When the hedged transaction is recorded (generally when revenue on the associated sales contract is recognized), any unrecognized gains or losses are reclassified into results of operations in the same period. Any hedge ineffectiveness is recorded to operations in the current period. The Company measures hedge effectiveness by comparing changes in fair values of the forward contract and expected cash flows based on changes in the spot prices of the underlying currencies. Cash flows from forward contracts accounted for as cash flow hedges are classified in the same category as the cash flows from the items being hedged.

Earnings per share

The Company reports earnings per share in accordance with FASB Accounting Standard Codification Topic 260 ("ASC 260") "Earnings Per Share" (Formerly known as SFAS No. 128, "Earnings Per Share"). Basic earnings per share is computed using the weighted average number of common shares outstanding during the periods presented. The weighted average number of shares represents the common stock outstanding during the years, as adjusted retroactively to reflect the November 2007 recapitalization. Diluted earnings per common share computations are based on the weighted average number of common shares outstanding during the period, plus the dilutive effect of stock options, warrants and restricted stock awards.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**2. Summary of significant accounting policies (continued)**

Stock-Based Compensation

The Company accounts for stock-based payment transactions in which the Company receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Stock-based compensation cost for restricted stock units ("RSUs") is measured based on the closing fair market value of the Company's common stock on the date of grant. Stock-based compensation cost for stock options is estimated at the grant date based on each option's fair-value as calculated by the Black-Scholes-Merton ("BSM") option-pricing model. The Company recognizes stock-based compensation cost as expense ratably on a straight-line basis over the requisite service period. The Company will recognize a benefit from stock-based compensation in equity if an incremental tax benefit is realized by following the ordering provisions of the tax law. In addition, the Company accounts for the indirect effects of stock-based compensation on the research tax credit, the foreign tax credit and the domestic manufacturing deduction through the income statement. Further information regarding stock-based compensation can be found in Note 9, "Shareholders' Equity and Stock-Based Compensation."

Share-based compensation expense was \$233,897, 303,333 and Nil and for the years ended December 31, 2009, 2008 and 2007, respectively.

Recently issued accounting pronouncements

ASC 805, Business Combinations ("ASC 805") (formerly included under Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations) contains guidance that was issued by the FASB in December 2007. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with certain exceptions. Additionally, the guidance requires changes to the accounting treatment of acquisition related items, including, among other items, transaction costs, contingent consideration, restructuring costs, indemnification assets and tax benefits. ASC 805 also provides for a substantial number of new disclosure requirements. ASC 805 also contains guidance that was formerly issued as FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies which was intended to provide additional guidance clarifying application issues regarding initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. ASC 805 was effective for business combinations initiated on or after the first annual reporting period beginning after December 15, 2008. The Company implemented this guidance effective January 1, 2009. Implementing this guidance did not have an effect on the Company's financial position or results of operations; however it will likely have an impact on the Company's accounting for future business combinations, but the effect is dependent upon acquisitions, if any, that are made in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

2. **Summary of significant accounting policies** *(continued)*

Recently issued accounting pronouncements *(Continued)*

In March 2008, the FASB issued ASC 815 (formerly SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133") to amend and expand the disclosures about derivatives and hedging activities. The standard requires enhanced qualitative disclosures about an entity's objectives and strategies for using derivatives, and tabular quantitative disclosures about the fair value of derivative instruments and gains and losses on derivatives during the reporting period. This standard is effective for both fiscal years and interim periods that begin after November 15, 2008. The adoption of this standard on December 29, 2008, the beginning of the Company's fiscal year, did not have a material impact on its consolidated financial statements.

ASC 855, Subsequent Events ("ASC 855") (formerly Statement of Financial Accounting Standards No. 165, Subsequent Events) includes guidance that was issued by the FASB in May 2009, and is consistent with current auditing standards in defining a subsequent event. Additionally, the guidance provides for disclosure regarding the existence and timing of a company's evaluation of its subsequent events. ASC 855 defines two types of subsequent events, "recognized" and "non-recognized". Recognized subsequent events provide additional evidence about conditions that existed at the date of the balance sheet and are required to be reflected in the financial statements. Non-recognized subsequent events provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date and, therefore, are not required to be reflected in the financial statements. However, certain non-recognized subsequent events may require disclosure to prevent the financial statements from being misleading. This guidance was effective prospectively for interim or annual financial periods ending after June 15, 2009. The Company implemented the guidance included in ASC 855 as of April 1, 2009. The effect of implementing this guidance was not material to the Company's financial position or results of operations.

In August 2009, the FASB issued Accounting Standards Update ("ASU") 2009-05, which amends ASC Topic 820, Measuring Liabilities at Fair Value, which provides additional guidance on the measurement of liabilities at fair value. These amended standards clarify that in circumstances in which a quoted price in an active market for the identical liability is not available, the Company is required to use the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities, or quoted prices for similar liabilities when traded as assets. If these quoted prices are not available, the Company is required to use another valuation technique, such as an income approach or a market approach. These amended standards are effective for the Company beginning in the fourth quarter of fiscal year 2009. There was no material impact upon the adoption of this standard on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

2. **Summary of significant accounting policies** *(continued)*

Recently issued accounting pronouncements *(Continued)*

In September 2009, the FASB issued ASU 2009-06, Income Taxes (Topic 740), "Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities," which provides implementation guidance on accounting for uncertainty in income taxes, as well as eliminates certain disclosure requirements for nonpublic entities. For entities that are currently applying the standards for accounting for uncertainty in income taxes, this update became effective for interim and annual periods ending after September 15, 2009. For those entities that have deferred the application of accounting for uncertainty in income taxes in accordance with paragraph 740-10-65-1(e), this update shall be effective upon adoption of those standards. The adoption of this standard is not expected to have an impact on the Company's consolidated financial position and results of operations since this accounting standard update provides only implementation and disclosure amendments.

In September 2009, the FASB published ASU 2009-12, "Fair Value Measurements and Disclosures (Topic 820) - Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." This ASU amends Subtopic 820-10, "Fair Value Measurements and Disclosures – Overall," to permit a reporting entity to measure the fair value of certain investments on the basis of the net asset value per share of the investment (or its equivalent). This ASU also requires new disclosures, by major category of investments including the attributes of investments within the scope of this amendment to the Codification. The guidance in this update is effective for interim and annual periods ending after December 15, 2009. Early application is permitted. The Company is in the process of evaluating the impact of this standard on its consolidated financial position and results of operations.

In October 2009, the FASB published ASU 2009-13, "Revenue Recognition (Topic 605)-Multiple Deliverable Revenue Arrangements," which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria in Subtopic 605-25, "Revenue Recognition-Multiple-Element Arrangements," for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and also requires expanded disclosures. The guidance in this update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**2. Summary of significant accounting policies (continued)**

Recently issued accounting pronouncements (Continued)

ASC 105, Generally Accepted Accounting Principles (“ASC 105”) (formerly SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162), reorganized by topic existing accounting and reporting guidance issued by the FASB into a single source of authoritative GAAP to be applied by nongovernmental entities. All guidance contained in the Codification carries an equal level of authority. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Accordingly, all other accounting literature will be deemed “non-authoritative.” ASC 105 is effective on a prospective basis for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented the guidance included in ASC 105 as of July 1, 2009. The implementation of this guidance changed the Company’s references to GAAP authoritative guidance but did not impact the Company’s financial position or results of operations.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 (ASU 2010-06), Fair Value Measurements and Disclosures which amends ASC Topic 820, adding new requirements for disclosures for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010 (the Company’s fiscal year 2012); early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2009-14 on its financial statements.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

3. Other income

	<i>Years Ended December 31,</i>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Bank interest income	62,805	149,558	75,546
Gain on forward contract	-	50,357	-
Sundry income	198,212	263,227	73,107
Government sponsor	248,277	-	-
	<u>509,294</u>	<u>463,142</u>	<u>148,653</u>

4. Interest expense

	<i>Years Ended December 31,</i>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Interest on trade related bank loans	214,721	166,867	547,573
Interest on short-term bank loans	313,219	475,294	135,369
Interest on other loans	-	-	13,190
	<u>527,940</u>	<u>642,161</u>	<u>696,132</u>

5. Other expenses

	<i>Years Ended December 31,</i>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Foreign exchange contract expenses	214,092	-	-
	<u>214,092</u>	<u>-</u>	<u>-</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**6. Income taxes**

The Company and its subsidiaries file separate income tax returns.

USA

The Company is incorporated in the United States, and is subject to United States federal and state income taxes. The Company did not generate taxable income in the United States in 2007, 2008 or 2009.

PRC

Prior to January 1, 2008, the PRC's statutory income tax rate was 33%. In addition, SZ Highpower, being located in the Shenzhen Special Economic Zone in the PRC, was subject to a reduced tax rate of 15%. Since SZ Highpower agreed to operate for a minimum of 10 years in the PRC, it is entitled to a tax holiday of a two-year tax exemption followed by three-year 50% tax reduction from the first profit making year after offsetting accumulated tax losses of it.

On March 16, 2007, the National People's Congress passed the new Corporate Income Tax law (the "new CIT law") which unifies the income tax rate to 25% for all companies. The new CIT law was effective as of January 1, 2008. The new CIT law provides a five-year transition period from its effective date for those companies which were established before March 16, 2007 and which were entitled to a preferential lower tax rate under the then effective tax laws or regulations, as well as grandfathering tax holidays. The transitional tax rates are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively. Under the new tax law, it allows entities that qualify as high-technology enterprises to be taxed at a reduced tax rate of 15%. SZ Highpower was eligible for the reduced tax rate of 15% as of December 31, 2008. Accordingly, SZ Highpower has used the reduced tax rate of 15% in determining its deferred taxes as of December 31, 2008. HZ Highpower and SZ Spring Power did not generate taxable income in the PRC in 2009.



HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

6. **Income taxes** (*continued*)

Hong Kong

HKHTC is incorporated in Hong Kong, and is subject to Hong Kong Profits Tax. HKHTC did not generate taxable income in Hong Kong in 2007, 2008 or 2009.

The components of income before income taxes are:

	<i>Years Ended December 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
United States	(216,667)	(579,333)	(490,234)
Hong Kong	(338,970)	(6,367)	689,749
People's Republic of China	<u>6,146,987</u>	<u>3,121,137</u>	<u>1,609,633</u>
	<u>5,591,350</u>	<u>2,535,437</u>	<u>1,809,148</u>

The components of the provision for income taxes are:

	<i>Years Ended December 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
PRC income tax			
Current year	1,042,335	603,072	173,735
Deferred taxes	<u>105,469</u>	<u>(74,122)</u>	<u>(28,277)</u>
	<u>1,147,804</u>	<u>528,950</u>	<u>145,458</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

6. **Income taxes (continued)**

The following table accounts for the differences between the actual tax provision and the amounts obtained by applying the applicable statutory income tax rate to income before taxes for the years ended December 31, 2009, 2008 and 2007, respectively.

	<i>Years Ended December 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
	\$	\$	\$
Income before taxes	5,591,350	2,535,437	1,809,148
Provision for income taxes at applicable income tax rate	1,397,838	633,859	271,372
Change in valuation allowance	(116,767)	(44,218)	-
Income not subject to tax	(6,425)	(17,335)	(84,614)
Non-deductible expenses for income tax purposes	721,648	400,153	229
Tax exemption of PRC subsidiary	(822,474)	(413,605)	(133,885)
Tax rate differential	(26,016)	(29,904)	94,865
Others	-	-	(2,509)
	<u>1,147,804</u>	<u>528,950</u>	<u>145,458</u>

The major components of deferred tax recognized in the consolidated balance sheets as of December 31, 2009 and 2008 are as follows:

	<i>At December 31</i>	
	<i>2009</i>	<i>2008</i>
	\$	\$
Temporary difference on:		
Recognition of expenses	-	(93,300)
Accelerated tax depreciation on intangible assets	-	(11,256)
Deferred tax assets, net	<u>-</u>	<u>(104,556)</u>
Recognized in the balance sheet:		
Net deferred tax assets	<u>-</u>	<u>(104,556)</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

6. **Income taxes (continued)**

Based on the above, the pro forma effect of the tax exemption of SZ Highpower is as follows:

	<i>Years Ended December 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Statutory income tax rate	25%	25%	15%
Exempted income tax rate	10%	10%	7.5%
Income tax exemption	<u>822,474</u>	<u>413,605</u>	<u>\$ 133,885</u>
Tax effect derived from exemption (per share)	<u>\$ 0.06</u>	<u>\$ 0.03</u>	<u>\$ 0.01</u>

**Accounting for Uncertainty in Income Taxes**

The Company adopted the provisions of FASB Accounting Standard Codification Topic 740 (ASC 740) "Income Taxes." ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with ASC 740, and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of the provisions of ASC 740 did not have a material effect on the Company's financial statements.

Based on the Company's evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

7. Prepaid expenses and other receivables

	<i>As December 31,</i>	
	<u>2009</u>	<u>2008</u>
	<u>\$</u>	<u>\$</u>
Purchase deposits paid	800,437	88,459
Advance to staff	150,139	143,595
Other deposits and prepayments	423,058	495,325
Value-added tax prepayment	339,868	-
Other receivables	653,232	1,005,330
	<u>2,366,734</u>	<u>1,732,709</u>

8. Deferred charges – Stock-based compensation

	<i>As December 31,</i>	
	<u>2008</u>	<u>2007</u>
	<u>\$</u>	<u>\$</u>
<i>Cost</i>		
Stock-based compensation – consulting fee	520,000	520,000
<i>Accumulated amortization</i>	(520,000)	(303,333)
<i>Net</i>	<u>-</u>	<u>216,667</u>

Amortization expenses included in general and administrative costs for the year ended 2009 and 2008 were \$216,667 and 303,000, respectively.

The Company is amortizing the \$520,000 cost of stock-based compensation over a period of one year on the straight line basis.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**9. Share – based compensation expenses**

The equity awards are currently made only from the 2008 Omnibus Incentive Plan as described below.

2008 Omnibus Incentive Plan

The 2008 Omnibus Incentive Plan (the “2008 Plan”) was approved by the Company’s Board of Directors on October 30, 2008 and became effective upon the approval of the Company’s stockholders on December 11, 2008. The 2008 Plan has a ten year term. The 2008 Plan reserves two million shares of common stock for issuance, subject to increase from time to time by the number of shares

The 2008 Plan authorizes the issuance of awards including stock options, restricted stock units (RSUs), restricted stock, unrestricted stock, stock appreciation rights (SARs) and other equity and/or cash performance incentive awards to employees, directors, and consultants of the Company. Subject to certain restrictions, the Compensation Committee of the Board of Directors has broad discretion to establish the terms and conditions for awards under the 2008 Plan, including the number of shares, vesting conditions and the required service or performance criteria. Options and SARs have a maximum term of five years, and their exercise price may not be less than 110% of fair market value on the date of grant. Repricing of stock options and SARs is prohibited without stockholder approval. Each share subject to an award other than stock options or SARs will reduce the number of shares available for issuance under the 2008 Plan by 17,000 shares. Certain change in control transactions may cause awards granted under the 2008 Plan to vest, unless the awards are continued or substituted for in connection with the transaction. As of December 31, 2009, there were 1,983,000 shares authorized and available for issuance under the 2008 Plan.

The restricted stock activity in 2009 related to the Company’s 2008 Plan was as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Price \$</u>
Non-vested at January 1, 2009	-	-
Granted	17,000	8.11
Vested	-	-
Forfeited	-	-
Non-vested at December 31, 2009	<u>17,000</u>	<u>8.11</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**10. Earning per share**

Basic earning per common share is computed by dividing income available to common shareholders by the weighted-averages number of shares of common stock outstanding during the period. Diluted earning per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock outstanding that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, restricted shares. The dilutive effect of potentially dilutive securities is reflected in diluted earning per common share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

The following tables set forth the computation of basic and diluted earnings per common share for the three years ended December 31, 2009, 2008 and 2007

	<i>Years Ended December 31,</i>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Numerator:			
Net income	<u>\$ 4,443,546</u>	<u>\$ 2,006,487</u>	<u>\$ 1,663,690</u>
Denominator:			
Weighted-average shares outstanding	13,608,265	13,205,599	9,832,493
Effect of dilutive securities	<u>59,432</u>	<u>27,754</u>	<u>-</u>
Weighted-average shares diluted	<u>13,667,697</u>	<u>13,233,353</u>	<u>9,832,493</u>
Basic earning per common share	<u>\$ 0.33</u>	<u>\$ 0.15</u>	<u>\$ 0.17</u>
Diluted earning per common share	<u>\$ 0.33</u>	<u>\$ 0.15</u>	<u>\$ 0.17</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

11. Inventories

	<i>At December 31,</i>	
	<i>2009</i>	<i>2008</i>
	<u>\$</u>	<u>\$</u>
Raw materials	4,090,897	1,708,431
Work in progress	1,086,523	1,434,517
Finished goods	5,441,554	8,049,138
Packing materials	14,592	16,611
	<u>10,633,566</u>	<u>11,208,697</u>

10. Plant and equipment

	<i>At December 31,</i>	
	<i>2009</i>	<i>2008</i>
	<u>\$</u>	<u>\$</u>
<i>Cost</i>		
Construction in progress	1,207,274	-
Furniture, fixtures and office equipment	1,748,650	598,496
Leasehold improvement	750,050	712,120
Machinery and equipment	9,040,243	8,155,270
Motor vehicles	710,245	476,910
Building	61,901	-
	<u>13,518,363</u>	<u>9,942,796</u>
<i>Accumulated depreciation</i>		
Construction in progress	-	-
Furniture, fixtures and office equipment	619,020	235,613
Leasehold improvement	362,042	220,746
Machinery and equipment	1,962,512	1,486,624
Motor vehicles	288,931	221,336
Building	985	-
	<u>3,233,490</u>	<u>2,164,319</u>
<i>Net</i>		
Construction in progress	1,207,274	-
Furniture, fixtures and office equipment	1,129,630	362,883
Leasehold improvement	388,008	491,374
Machinery and equipment	7,077,731	6,668,646
Motor vehicles	421,314	255,574
Building	60,916	-
	<u>10,284,873</u>	<u>7,778,477</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

12. **Plant and equipment** (*continued*)

The components of depreciation charged are:

	<i>Years ended December 31,</i>	
	<i>2009</i>	<i>2008</i>
	<u>\$</u>	<u>\$</u>
Included in cost of sales and selling and distribution costs	850,731	644,229
Included in operating expenses	<u>237,610</u>	<u>194,496</u>
	<u>1,088,341</u>	<u>838,725</u>

13. **Leasehold land**

	<i>At December 31,</i>	
	<i>2009</i>	<i>2008</i>
	<u>\$</u>	<u>\$</u>
Cost	3,145,322	3,112,765
Accumulated amortization	<u>(125,813)</u>	<u>(62,255)</u>
Net	<u>3,019,509</u>	<u>3,050,510</u>

The leasehold land is being amortized annually using the straight-line method over the lease terms of 50 years.

14. **Intangible asset - Consumer battery license**

	<i>At December 31,</i>	
	<i>2009</i>	<i>2008</i>
	<u>\$</u>	<u>\$</u>
Cost		
<i>Consumer battery license</i>	1,000,000	1,000,000
Accumulated amortization	<u>(150,000)</u>	<u>(100,000)</u>
<i>Net</i>	<u>850,000</u>	<u>900,000</u>

Amortization expenses are included in selling and distribution costs during the years.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

**14. Intangible asset - Consumer battery license (continued)**

SZ Highpower, a wholly-owned subsidiary of the Company, entered into a Consumer Battery License Agreement with Ovonic Battery Company, Inc. (Ovonic), an unrelated party, dated May 14, 2004, pursuant to which SZ Highpower acquired a royalty-bearing, non-exclusive license to use certain patents owned by Ovonic to manufacture rechargeable nickel metal hydride batteries for portable consumer applications (Consumer Batteries) in the PRC, and a royalty-bearing, non-exclusive worldwide license to use certain patents owned by Ovonic to use, sell and distribute Consumer Batteries. SZ Highpower made an up-front royalty payment to Ovonic of \$50,000 in 2004.

On August 8, 2007, SZ Highpower and Ovonic amended the Consumer Battery License Agreement pursuant to which SZ Highpower agreed to pay a total of \$112,580, which was to be made in two equal payments of \$56,290, one of which was to be made within 15 days of August 8, 2007, and the other within 45 days of August 8, 2007, as royalties for its use of the licensed technology in 2004, 2005 and 2006. Both of these payments were made during 2007 and were recorded as royalty expense in prior years, which was included in selling and distributing costs in the statement of operations.

The Consumer Battery License Agreement also requires the Company to pay an additional up-front royalty payment of \$1,000,000 by four annual installments and an annual royalty fee based on the gross sales of consumer batteries over the term of the Consumer Battery License Agreement. During 2009, the Company recorded a total of approximately \$249,588 as royalty expense, which was included in selling and distribution costs in the statement of operations. Accordingly, during the year ended December 31, 2008, the Company recorded a total up-front royalty payment obligation of \$1,000,000, which was included in other payables and accrued liabilities at December 31, 2008, with the related debit recorded as an intangible asset entitled consumer battery license agreement. At December 31, 2009 and 2008, accrued royalty fees payable were \$1,071,787 and \$1,540,900, respectively (see Note 19).

The Company is amortizing the \$1,000,000 cost of the Consumer Battery License Agreement over a period of 20 years on the straight line basis. The accounting for the Consumer Battery License Agreement is based on the Company's estimate of the useful life of the underlying technology, which is based on the Company's assessment of existing battery technology, current trends in the battery business, potential developments and improvements, and the Company's current business plan. Amortization expense related to the Consumer Battery License Agreement included in selling and distribution costs during the years ended December 31, 2009, 2008 and 2007 were \$50,000, \$50,000 and \$50,000, respectively.

Amortization of the License for the next five years is as follows:

Years ending December 31	\$
2010	50,000
2011	50,000
2012	50,000
2013	50,000
2014	50,000
2015 and thereafter	<u>600,000</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**15. Investment Securities**

	<i>As December 31,</i>	
	<i>2009</i>	<i>2008</i>
	<u>\$</u>	<u>\$</u>
Investment securities - cost method	52,732	-
	<u>52,732</u>	<u>-</u>

The investments in less than twenty percent owned entities are accounted for under the cost basis.

**16. Fair Value Measurements**

The Company adopted FASB ASC 820, Fair Value Measurements and Disclosures (“ASC 820”), related to the Company’s financial assets and liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also describes three levels of inputs that may be used to measure fair value:

Level 1 — quoted prices in active markets for identical assets and liabilities.

Level 2 — observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 — unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

ASC 820 also provides guidance for determining the fair value of a financial asset when the market for that asset is not active, and for determining fair value when the volume and level of activity for an asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate when a transaction is not orderly. The adoption of ASC 820 did not have a material impact on the Company’s financial condition or results of operations.

The effective date for certain aspects of ASC 820 was deferred and are currently being evaluated by the Company. Areas impacted by the deferral relate to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. The effects of these remaining aspects of ASC 820 are to be applied by the Company to fair value measurements prospectively beginning November 1, 2009. The adoption of the remaining aspects of ASC 820 is not expected to have a material impact on its financial condition or results of operations. See Note 6 to the consolidated financial statements in this Report on Form 10-K for additional investment information.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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16. Fair Value Measurements (Continued)

The following table details the fair value measurements of assets and liabilities within the three levels of the fair value hierarchy at December 31 2009 and December 31, 2008:

	Fair Value Measurements at reporting date using			
	December 31, 2009	Quoted Price in active Markets for identical assets (level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	\$	\$	\$	\$
<b>Assets</b>				
Accounts receivable	14,896,503	-	-	14,896,503
Prepaid expenses and other receivables	2,366,734	-	-	2,366,734
Notes receivable	596,795	-	-	596,795
<b>Liabilities</b>				
Non-trading foreign currency derivatives liabilities	11,041	-	11,041	-
Accounts payable	10,738,714	-	-	10,738,714
Other payables and accrued liabilities	3,563,308	-	-	3,563,308
<b>Fair Value Measurements at reporting date using</b>				
	Fair Value Measurements at reporting date using			
	December 31, 2008	Quoted Price in active Markets for identical assets (level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	\$	\$	\$	\$
<b>Assets</b>				
Accounts receivable	8,765,593	-	-	8,765,593
Notes receivable	429,815	-	-	429,815
Prepaid expenses and other receivables	1,732,709	-	-	-
Currency forward	116,157	-	116,157	-
<b>Liabilities</b>				
Non-trading foreign currency derivatives liabilities	293,830	-	293,830	-
Accounts payable	8,306,123	-	-	8,306,123
Other payables and accrued liabilities	3,139,275	-	-	3,139,275

Level 2 financial assets represent the fair value of our foreign currency exchange contracts that were valued using pricing models that take into account the contract terms as well as multiple inputs are applicable, such as currency rate. Level 3 financial assets represent the fair value of our accounts receivables.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

17. Risk Management Activities, Including Derivative

The Company selectively uses foreign currency forward contracts to offset the effects of foreign currency exchange rate changes on reported earnings, cash flow and net asset positions. The terms of these derivative contracts are generally for 12 months or less. Changes in the fair value of these derivative contracts are recorded in earnings to offset the impact of foreign currency transaction gains and losses attributable to certain third party and intercompany financial assets and liabilities with similar terms. The net gains and losses attributable to these activities are included in the Statement of Comprehensive Income, net.

	<i>As December 31,</i>	
	<i>2009</i>	<i>2008</i>
	\$	\$
Currency forwards (notional amount \$11 million), consisting of a put and a call	-	116,157

The Company recognized the following gains and losses attributable to its derivative financial instruments during the following periods:

	<i>Years Ended December 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
	\$	\$	\$
Foreign exchange contracts, net			
Gains recognized in Other income, net	-	50,357	-
Loss recognized in Other expenses, net	214,092	-	-

Hedging Activities

Due to the volatility of the US Dollar to the Company's functional currency, the Company has put into place a hedging program to attempt to protect it from significant changes to the US Dollar, which would affect the value of the Company's US dollar receivables and sales. At December 31, 2009, the Company had a series of currency forwards totaling a notional amount US\$6,500,000 expiring from January 2010 to August 2010.

SZ Highpower uses foreign currencies derivative instruments to manage foreign exchange resulting from fluctuations in US Dollar to the Company's functional currency (RMB). The notional amounts of these financial instruments are based on expected cash flow from operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**17. Risk Management Activities, Including Derivative (continued)**

At the inception of a derivative contract, SZ Highpower historically designated the derivative as a cash flow hedge. For all derivatives designated as cash flow hedges, SZ Highpower formally documented the relationship between the derivative contract and the hedged items, as well as the risk management objective for entering into the derivative contract. To be designated as a cash flow hedge transaction, the relationship between the derivative and the hedged items must be highly effective in achieving the offset of changes in cash flows attributable to the risk both at the inception of the derivative and on an ongoing basis. SZ Highpower historically measured hedge effectiveness on a quarterly basis and hedge accounting would be discontinued prospectively if it was determined that the derivative was no longer effective in offsetting changes in the cash flows of the hedged item. Gains and losses deferred in accumulated other comprehensive income related to cash flow hedge derivatives that became ineffective remained unchanged until the related cashflow was received. If SZ Highpower determined that it was probable that a hedged forecasted transaction would not occur, deferred gains or losses on the derivative were recognized in earnings immediately.

Derivatives, historically, were recorded on the balance sheet at fair value and changes in the fair value of derivatives were recorded each period in net income or other comprehensive income, depending on whether a derivative was designated as part of a hedge transaction and, if it was, depending on the type of hedge transaction. SZ Highpower's derivatives historically consisted primarily of cash flow hedge transactions in which SZ Highpower was hedging the variability of cash flows related to a forecasted transaction. Period to period changes in the fair value of derivative instruments designated as cash flow hedges were reported in other comprehensive income and reclassified to net income in the periods in which the contracts are settled. The ineffective portions of the cash flow hedges were reflected in net income as an increase or decrease to other income (expense). Gains and losses on derivative instruments that did not qualify for hedge accounting were also recorded as an increase or decrease to other income (expense), in the period in which they occurred. The resulting cash flows from derivatives were reported as cash flows from operating activities.

The cost of the effective portion of the cash flow hedges was \$11,041 and \$293,830 for the years ended December 31, 2008 and 2009, respectively.

**18. Change in fair value of share warrants**

On June 19, 2008, the Company issued to WestPark Capital, Inc. warrants to purchase 52,500 shares of common stock at an exercise price of \$3.90 per share in connection with the initial public offering. The warrants have a term of five years and are exercisable no sooner than one year and no later than five years.

The fair value of the warrants at June 19, 2008, the date of issue was \$276,000. The fair value of the warrants is appraised by an independent qualified valuer.

On December 16, 2009, a warrant holder exercised 5,000 shares of the warrants via a cashless exercise. The Company issued 2,510 shares of common stock upon the exercise of the warrants at no consideration. At December 31, 2009, warrants to purchase 47,500 shares of common stock were still outstanding.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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19. Other payables and accrued liabilities

	<i>At December 31,</i>	
	<u>2009</u>	<u>2008</u>
	<u>\$</u>	<u>\$</u>
Accrued expenses	2,056,261	1,072,331
Royalty fee	1,071,787	1,540,900
Sales deposits received	259,550	388,261
Value-added tax payables	-	105,833
Other payables	175,710	31,950
	<u>3,563,308</u>	<u>3,139,275</u>

20. Bank borrowings

	<i>At December 31,</i>	
	<u>2009</u>	<u>2008</u>
	<u>\$</u>	<u>\$</u>
Secured:		
Repayable within one year		
Short term bank loans	2,929,551	2,969,939
Other trade related bank loans	11,858,164	11,859,289
	<u>14,787,715</u>	<u>14,829,228</u>

As of December 31, 2009 the Company's banking facilities are comprised of the following:

<u>Facilities granted</u>	<u>Granted</u>	<u>Amount Utilized</u>	<u>Unused</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Short term bank loans	2,929,551	2,929,551	-
Other trade related loan facilities including:			
- Accounts receivables financing	1,342,573	1,342,573	-
- Accounts payable financing	22,762,608	10,515,591	12,247,017
	<u>27,034,732</u>	<u>14,787,715</u>	<u>12,247,017</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**20. Bank borrowings (continued)**

As of December 31, 2009 the above bank borrowings were secured by the following:

- (a) charge over bank deposits of \$5,478,418 which is included in restricted cash on the Balance sheet;
- (b) personal guarantee executed by certain directors of the Company; and
- (c) the legal charge over leasehold land with carrying amount \$3,019,509.

The interest rates of trade related bank loans were at bank's prime lending rate per annum with various maturity dates. The rates at December 31, 2009 ranged from 1.40% to 5.31%.

The interest rates of short term bank loans were at 4.86% per annum at December 31, 2009.

**21. Pension plans**

For employees in PRC, the Company contributes on a monthly basis to various defined contribution plans organized by the relevant municipal and provincial government in the PRC based on certain percentages of the relevant employees' monthly salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Company has no further constructive obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Total pension cost was \$515,379, \$432,402 and \$148,193 for the years ended December 31, 2009, 2008 and 2007, respectively.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**22. Commitments and contingencies**

Operating leases commitments

The Company leases factory and office premises under various non-cancelable operating lease agreements that expire at various dates through years 2010 to 2011, with a options to renew the leases. All leases are on a fixed payment basis. None of the leases includes contingent rentals. Minimum future commitments under these agreements payable as of December 31, 2009 are as follows:

Years ending December 31	\$
2010	812,728
2011	258,084
	<u>1,070,812</u>

Rental expense for the years ended 2009, 2008 and 2007 were \$944,575, \$1,019,505 and \$429,450, respectively.

**23. Related party transactions**

Apart from the transactions as disclosed in Notes 12 and 13, the Company entered into the following transactions with its related party during the years ended December 31, 2009, 2008 and 2007:

	<u>Year Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$
Management fee paid to Canhold International Limited	<u>-</u>	<u>-</u>	<u>21,134</u>



HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**24. Segment information**

The Company uses the “management approach” in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company’s chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company’s reportable segments. Management, including the chief operating decision maker, reviews operating results solely by monthly revenue (but not by sub-product type or geographic area) and operating results of the Company and, as such, the Company has determined that the Company has one operating segment as defined by FASB Accounting Standard Codification Topic 280 (ASC 280) “Segment Reporting” (Formerly known as SFAS 131, “Disclosures about Segments of an Enterprise and Related Information”).

All long-lived assets of the Company are located in the PRC. Geographic information about the revenues and accounts based on the location of the Company’s customers is set out as follows:

	<i>Years Ended December 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
<i>Net revenue</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Hong Kong and China	33,053,941	30,893,163	28,919,384
Asia	3,908,783	4,810,282	5,965,339
Europe	23,096,172	27,979,918	25,318,608
North America	9,932,122	10,885,903	12,851,807
South America	42,002	434,976	206,582
Africa	206,014	-	-
Other	92,243	-	-
	<u>70,331,277</u>	<u>75,004,242</u>	<u>73,261,720</u>

	<i>At December 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
<i>Accounts receivable</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Hong Kong and China	8,511,192	5,012,472	4,258,010
Asia	476,659	169,376	1,023,284
Europe	4,050,519	2,695,166	6,761,615
North America	1,846,832	875,022	3,863,266
South America	900	13,558	-
Africa	10,300	-	-
Other	101	-	-
	<u>14,896,503</u>	<u>8,765,594</u>	<u>15,906,175</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Stated in US Dollars)

**25. Dividends**

The directors have declared and the Company has paid the following dividends in respect of the years ended December 31, 2009, 2008 and 2007:

	<i>At December 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>
<i>Dividends</i>			
Interim dividend declared and paid on September 30, 2007 of approximately \$ 0.07 per share:	-	-	665,182

**26. Subsequent Events**

The Company has evaluated significant events and transactions that occurred from January 1, 2010 through the date of this report and has determined that there were no events or transactions other than those disclosed in this report, if any, that would require recognition or disclosure in its Condensed Consolidated Financial Statements for the year ended December 31, 2009.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

27. Quarterly Results of Operations (unaudited)

The following table sets forth unaudited quarterly results of operations for the years ended December 31, 2009 and 2008. This unaudited quarterly information has been derived from the Company's unaudited financial statements and, in the Company's opinion, includes all adjustments, including normal recurring adjustments, necessary for a fair presentation of the information for the periods covered. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	Three Months Ended				Year Ended
	March 31, 2009 \$	June 30, 2009 \$	September 30, 2009 \$	December 31, 2009 \$	December 31, 2009 \$
Net revenue	11,309,805	15,445,484	21,056,149	22,519,839	70,331,277
Gross profit	2,396,096	3,073,808	5,221,039	4,340,379	15,031,322
Net income	402,966	968,656	2,433,676	638,248	4,443,546
Net income per common share:					
Basic	0.03	0.07	0.18	0.05	0.33
Diluted	0.03	0.07	0.18	0.05	0.33
Weighted average common shares outstanding					
Basic	13,562,596	13,762,217	13,562,597	13,566,601	13,608,265
Diluted	13,562,596	13,812,547	13,612,097	13,632,096	13,667,697
	Three Months Ended				Year Ended
	March 31, 2008 \$	June 30, 2008 \$	September 30, 2008 \$	December 31, 2008 \$	December 31, 2008 \$
Net revenue	17,831,562	19,021,476	20,473,472	17,677,732	75,004,242
Gross profit	2,708,298	3,374,867	3,511,808	3,170,287	12,765,260
Net income	730,327	684,247	289,356	302,557	2,006,487
Net (loss) income per common share:					
Basic	0.06	0.05	0.02	0.02	0.15
Diluted	0.06	0.05	0.02	0.02	0.15
Weighted average common shares Outstanding					
Basic	14,798,846	12,899,560	13,562,596	13,711,011	13,205,599
Diluted	14,798,846	12,906,483	13,615,096	13,708,139	13,233,353



## Agreement on Line of Credit

No. 2009 Zhen Zhong Yin Bu E Xie Zi No. 000455

Party A: Shenzhen Highpower Technology Co., Ltd.  
Business License No.: 440307503274740  
Legal representative/principal: Pan Dangyu  
Domicile: A2 Block, Luoshan Industrial Park, Pinghu Town, Luogang District, Shenzhen  
Postal Code: 518111  
Opening financial institution & account: Bank of China, Pinghu Subbranch, 814809259208091001  
Tel.: 89686236 Fax: 89686298

Party B: Bank of China Limited, Shenzhen Buji Subbranch  
Legal representative/Principal: Jiang Guoliang  
Domicile: No. 108, Buji Road, Buji Town, Longgang District, Shenzhen  
Postal Code: 518112  
Tel.: 28274825 Fax: 28270847

Party A and Party B, in light of developing friendly and mutual benefit cooperation relationship, reached the following agreement through negotiation pursuant to principles of voluntariness, equality, mutual benefit and good faith.

### Article 1: Scope of business

Party B will provide Party A the line of credit as agreed in the Agreement. Party A may, subject to the preconditions as agreed herein and in relevant single agreement, apply to Party B for revolving use, adjustment or one-time use of the line of credit for the purpose of RMB short-term loan, foreign currency short-term loan, trade financing, Letter of Guarantee, funding business and other credit business (collectively referred to as "single loan business").

Trade financing, as mentioned herein, includes opening international L/C, opening domestic L/C, import bill advance, lading guarantee, packing credit, export bill advance, discounting acceptance draft under time L/C, buyer bill advance for domestic L/C, seller bill advance for domestic L/C, negotiation of domestic L/C and other international and domestic trade financing businesses.

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## Article 2: Types and Sum of Line of Credit

Party B agrees to provide the following line of credit to Party A:

Currency: RMB

Sum: (in words) one hundred million Yuan

(in figures) RMB100,000,000.00

The detailed types and sum are as follows:

1. Line of credit for loan RMB 20,000,000.00 (in words: twenty million Yuan), which includes:

(1) Line of credit for Short-term loan RMB 20,000,000.00(in words: twenty million Yuan)

2. Line of trade financing: RMB75,000,000.00 (in words: seventy-five million Yuan), which includes:

(1) Factoring line of credit: RMB35,000,000.00 (in words: thirty-five million Yuan)

(2) Line of credit for opening domestic L/C (incl. buyer bill advance): RMB40,000,000.00 (in words: forty million Yuan)

3. Line of fund:RMB 5,000,000.00(in words: five million Yuan) , which includes:

Line of foreign currency trading earnest money RMB 5,000,000.00(in words: five million Yuan)

## Article 3: Use of the line of credit

1. Within the use period of the line of credit as agreed in the agreement, Party A may, without exceeding the scope of line regarding respective single loan business as agreed herein, use the respective line of credit by the following (1) manner:

(1) Revolving use: the detailed types of line of credit are factoring line of credit and line of credit for opening domestic L/C (incl. buyer bill advance) line of credit for Short-term loan line of fund.

(2) One-time use: the detailed types of line of credit are: \_\_\_\_ / \_\_\_\_.

In case Party A intends to adjust the use of line of loan of credit as agreed in Article 1, it shall apply to Party B in written form, subsequent to which Party B shall determine whether or not grant and the details of the adjustment and inform Party A in written form accordingly.

2. As of the effective date of the Agreement, the balance of credit based on Agreement on Line of Credit or similar agreement and single agreement thereof previously effective shall be deemed the credit generated hereunder.

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In which, the balance of credit in the line of credit shall be deemed the line of credit hereunder.

3. Unless otherwise agreed, the following businesses shall not be incorporated into the line of credit:

(1) Export bill advance where the L/C is consistent with documents;

(2) Bill advance or financing based on the export L/C acceptable by Party B and accepted/ honored/ confirmed for payment/ confirmed by the opening bank or confirming house, or based on the bill of exchange or sum under domestic L/C;

(3) Where Party A would provide deposit, national debt, or deposit receipt issued by Party B, or the acceptance bill, letter of guarantee and standing L/C acceptable to Party B, the sum of credit corresponding to the said guarantee will not be incorporated into the line of credit;

(4)

(...) Other businesses not incorporated into the line of credit otherwise confirmed by both parties in written form.

Though the said items will not be incorporated into the line of credit, the business agreements thereof shall still constitute the single agreement hereunder and the integral part hereof and shall be bound by the Agreement hereof, unless otherwise agreed in the said business agreements.

#### **Article 4: Agreements Executed in Single Loan Business**

Party A shall, in case of applying to Party B for the single loan business hereunder, submit respective application and/or execute respective contract/agreement (collectively referred to as "single agreement") with Party B.

#### **Article 5: Use period of the line of credit**

The use period of the line of credit as stated in Article 2 hereof shall be from the effective date of the Agreement to 23 November 2010.

At the expiration of the aforesaid use period, where Party B provides the line of credit to Party A through negotiation, both parties may execute supplemental agreement in written form, define clearly the new line of credit and use period etc. The said supplemental agreement shall constitute integral part of the Agreement hereof, and any items uncovered in supplemental agreement shall be subject to provisions herein. The supplemental agreement shall be of the equal force and effect as of the Agreement hereof.

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Expiration of the use period as aforementioned shall not influence the force adefect of the Agreement and shall not constitute the cause of terminating the Agreement. Single loan business executed between Party A and Party B in light of the Agreement will be performed as per the agreements in the Agreement and in relevant single agreement. Any rights and obligations already generated shall be performed completely.

#### **Article 6: Preconditions for single loan business**

Party A shall comply with the following conditions regarding single loan business as required by Party B:

1. Reserve for Party B relevant Company file, document, seal, namelist of relevant staff, specimen signature relevant to the Agreement and single agreement, and fill in relevant certificates;
2. Open the account required by single loan business;
3. The guarantee agreed in the Agreement and single agreement has been effectively established;
4. Other preconditions required of the single business agreed in single business agreement;
5. Other conditions to be met by Party A deemed necessary by Party B.

#### **Article 7: Guarantee**

With respect to the liabilities of Party A to Party B arising from the Agreement and any single agreements, both parties agree to guarantee the liabilities by the following methods:

- (1) Surepower Technology (Shenzhen) Co., Ltd will, subject to 2009 Zhen Zhong Yin Bu Bao Xie Zi No. 000455A Contract on Maximum Guarantee, provide the maximum guarantee and sign corresponding Contract on Maximum Guarantee;
  - (2) Pan Dangyu will, subject to 2009 Zhen Zhong Yin Bu Bao Xie Zi No. 000455B Contract on Maximum Guarantee, provide the maximum guarantee and sign corresponding Contract on Maximum Guarantee;
  - (3) Li Wenliang will, subject to 2009 Zhen Zhong Yin Bu Bao Xie Zi No. 000455C Contract on Maximum Guarantee, provide the maximum guarantee and sign corresponding Contract on Maximum Guarantee;
-



(4) Ma Wenwei will, subject to 2009 Zhen Zhong Yin Bu Bao Xie Zi No. 000455D Contract on Maximum Guarantee, provide the maximum guarantee and sign corresponding Contract on Maximum Guarantee;

Maximum pledge:

(1) Shenzhen Highpower tech. CO., Ltd. subject to 2009 Zhen Zhong Yin Bu Di Xie Zi No.000455 Contract on Maximum pledge will provide the maximum pledge and sign corresponding Contract on Maximum Pledge.

(2)      will provide the maximum pledge and sign corresponding Contract on Maximum Pledge.

The guarantee contract shall be signed corresponding to the detailed loan business agreement in case single loan business is to be provided.

In case of any events occurred to Party A or the guarantor which is deemed to be influencing the performance capacity of Party A or the guarantor, or in case the guarantee contract turns to invalid, is cancelled or rescinded, or in case Party A or the guarantor seriously deteriorates in the financial position or is involved in significant litigation or arbitration cases or any other conditions which may influence its performance capacity hereunder, or in case the guarantor breaches the guarantee contract or any other contract executed between Party B, or in case the collateral is depreciated, damaged, lost or sealed which weakens or eliminates the guarantee value, Party B shall have the right to require Party A and Party A shall be obligated to provide new guarantee, to change guarantor etc to guarantee the liabilities hereunder.

#### **Article 8: Representations and commitments**

Party A represents as follows:

1. Party A is lawfully registered and existed and of the full capacity for private rights and the full capacity for civil acts as needed for the execution and performance of the Agreement;
  2. Executing and performing the Agreement and single agreements shall be the declaration of Party A's true intention with legal and valid authorization in accordance with the articles of association or other internal management document. Execution and performance of the Agreement and single agreements will not breach any agreement, contract or other legal documents binding Party A. Party A has acquired or will acquired all relevant approvals, permissions, filings or registrations needed by the execution and performance of the Agreement;
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3. All documents, financial statements, certificates and other materials provided by Party A hereunder and under any single agreement shall be true, complete, accurate and valid;

4. The background of the transaction hereunder shall be true and legal, which will not be used for illegal purposes like money laundering etc;

5. Party A did not conceal from Party B any event which may influence the financial position and performance capacity of itself and the guarantor.

Party A makes the commitment as follows:

1. Party A will submit the financial statements (including but not limited to annual statements, quarterly statements and monthly statements) on a regular basis or in a timely manner as required;

2. Party A will accept and cooperate with Party A's inspection and monitor over the use condition of the line of credit and relevant production and operation, financial activities;

3. In case Party A executes with the guarantor hereunder any counter-guarantee contract or similar contract, it shall not impair any rights of Party B hereunder;

4. In case of any conditions which may influence the financial position and performance capacity of Party A or the guarantor hereunder, including but not limited to the split-up, merging, pooling, joint venture with foreign investors, cooperation, contract operation, reconstruction, transformation, planning for listing etc of its business manner in any form, reduction of registered capital, significant asset or equity transfer, bearing of significant indebtedness, setup of new significant liability on the collateral, seal-up of the collateral, wind-up, revocation or (being applied) application for bankruptcy etc, or engaging in any significant litigation or arbitration cases, Party A shall timely inform Party B;

5. Party A agrees to follow Party B's relevant regulations and business practices regarding any items not covered in the Agreement and in any single agreement.

#### **Article 9: Internal related transaction and disclosure thereof in Party A's Group**

Both parties agreed to follow the item 1 as mentioned hereunder:

1. Party A did not fall into the customer group as determined in Guidelines for the Risk Management by Commercial Banks for Granting Credit to Customer Groups ("Guidelines");

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2. Party A falls into the category of customer group as defined by Party B in compliance with Guidelines. Party A shall, subject to provisions of Article 17 of Guidelines, timely report to Party B the conditions of any related transaction over 10% of Party A's net assets, including the related relation of parties concerned, transaction items, transaction nature, sum or respective ratio, pricing policies (incl. transaction without any sum or with only symbolic sum).

#### **Article 10: Defaults and treatment**

Any of the following conditions shall constitute or be deemed as the default of Party A hereunder or under any single agreement:

1. Party A fails to perform the payment and settlement obligations to Party B as agreed in the Agreement and single agreement;
2. Party A fails to use the funds acquired for agreed purposes as stated in the Agreement and single agreement;
3. The representations made by Party A in the Agreement and single agreement were untrue or breached the commitment of Party B in the Agreement and single agreement.
4. In case of the condition provided in Article 8, item 2 (4) which is deemed by Party B as influencing Party A's financial position and performance capacity, or influencing the guarantor's financial position and performance capacity, while Party A fails to provide new guarantee and replace guarantor as agreed in the Agreement.
5. Party A terminates the business or is engaged in any wind-up, cancellation or bankruptcy issues.
6. Party A breaches any other agreements regarding involving party's obligations in the Contract or in single agreement.
7. Party A was engaged in any default issues under any other contract with Party B or other organizations under Bank of China Limited;
8. The guarantor breaches the agreement in guarantee contract, or is engaged in any default issues under any other contract with Party B or other organizations under Bank of China Limited.

Party B shall, according to the actual situation, have the right to take the following measures jointly or respectively regarding the aforesaid default issues:

1. Require Party A and the guarantor to correct the default action within required duration;
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2. Reduce, suspend or terminate in whole or in part the line of credit to Party B;
3. Suspend or terminate in whole or in part any business application of Party A under the Agreement, single agreement or any other agreement between Party A and Party B; suspend or terminate in whole or in part the issuance and handling of any loan not issued, any trading financing business and letter of guarantee business not handled;
4. Declare that the loan, trade financing sum, principal and interest of advanced sum for letter of guarantee not repaid and other payables under the Agreement, single agreement or any other agreement between Party A and Party B shall be in whole or in part be mature immediately;
5. Terminate or cancel the Agreement, terminate or cancel single agreements and other agreements between Party A and Party B in whole or in part;
6. Require Party A to indemnify the losses caused to Party B thereby;
7. With prior or after notice, deduct the sum in the account opened in Party B to discharge all or part liabilities of Party B attributable to Party A. Any premature sum in the account shall be deemed mature in advance. Where the currency of the account is different from the pricing currency of Party B's business, the settlement exchange rate applicable to Party B at the time of deduction shall be followed for the translation;
8. Exercise the security interest;
9. Require the guarantor to undertake the guarantee responsibility;
10. Party A promises that, within the effective period of the Agreement, the total line of credit (which may be extended to total amount of exposed credit) in all banks shall not exceed RMB140 million, or else Party B shall have the right to suspend the credit;
11. Any other measures deemed necessary by Party B.

**Article 11: Rights reservation**

Any party's failure in performing the rights under the Agreement, single agreement in whole or in part or in requiring the other party to perform and undertake partial or whole liabilities and obligations shall not constitute the waiver of the rights or release of the liabilities or obligations.

Any party's allowance or extension to the other party or delay in performing the rights under the Agreement or single agreement shall not affect any of its rights under the Agreement, single agreement, laws or regulations and shall not be deemed as the waiver of the rights.

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**Article 12: Modification, alteration, termination and partial invalidity**

The Agreement may be subject to modification or alteration with both parties' negotiation and consensus, and any modification or alteration made thereby shall constitute integral part of the Agreement.

Unless otherwise provided by laws or regulations or otherwise agreed by both parties concerned, the Agreement shall not be terminated prior to the complete performance of the rights and obligations hereunder and under single agreement.

Unless otherwise provided by laws or regulations or otherwise agreed by both parties concerned, the invalidity of any provisions herein shall not influence the validity of any other provisions herein.

**Article 13: Applicable laws and dispute settlement**

Unless otherwise agreed by parties concerned, the Agreement and single agreement shall be governed by laws of the People's Republic of China.

Unless otherwise agreed by parties concerned, upon the coming into force of the Agreement and single agreement, any and all disputes arising from or in connection with the execution and performance of the Agreement and single agreement shall be subject to negotiation between both parties, failing which any party hereto may solve the dispute under question by the 2 manner mentioned below:

1. Submit to      /      arbitration committee for arbitration.
2. Appeal to the people's court in the place where Party B resides or where any other organizations under Bank of China Limited performing rights and undertaking obligations under the Agreement or single agreement reside.
3. Appeal to the people's court with jurisdiction.

During the dispute settlement period, any other articles not affected by the dispute shall be performed as well.

**Article 14: Expense**

Unless otherwise provided for by law or otherwise agreed by both parties, the expenses (incl. attorney fee) for concluding, performing and dispute settling of the Agreement and single agreement shall be borne by Party A.

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## **Article 15: Attachments**

The following attachments and any other attachments and single agreements jointly confirmed by both parties shall constitute integral part of the Agreement and be of the same force and effect with the Agreement.

Attachment 7: Opening of Domestic L/C.

Attachment 9: Buyer Bill Advance of Domestic L/C.

Attachment 12: \_\_\_\_ / \_\_\_\_ ..

## **Article 16: Other provisions**

1. Party A, without the consent of Party B in written, shall not assign any rights and obligations hereunder or under any single agreement to any third party.
  2. In case Party B shall, as required by business, entrust other organizations under Bank of China Limited to exercise the rights and undertake obligations under the Agreement and single agreement, Party A shall agree with the arrangement. Other organizations under Bank of China Limited as authorized by Party B shall have the right to exercise all rights under the Agreement and single agreement and shall have the right to appeal to the people's court or to arbitration institution for any dispute under the Agreement or single agreement.
  3. The Agreement shall be binding upon both parties and successors and assignees legally generated of both parties without affecting any other provisions herein and in single agreement.
  4. Unless otherwise agreed, domicile designated by both parties herein shall be the address of both parties for communication. Both parties commit to inform the other party in written form in case of changing the said domicile.
  5. Headings and business names as mentioned herein shall be used only for the convenience of reference, which shall not be regarded as the interpretation of provisions contained herein or rights and obligations of parties hereto.
  6. Party A commits to take Party B as the secondary mortgagee upon acquiring the property right certificate of Lilang Production Base.
  7. Party A commits that it will take the settlement account opened in Party B as the main account of recovering sales proceeds, and the relevant deposit and settlement sum therein shall not be less than the credit tranche granted to Party A by Party B.
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8. Party A commits that it shall inform Party B in written form and shall obtain the consent of Party B prior to applying for any credit from other commercial banks, otherwise Party B shall have the right to terminate the credit.

**Article 17: Effectiveness**

The Agreement shall come into force with the signature of both parties' legal representatives, principals or authorized signatories and with both parties' official seals.

The Agreement shall be made in sextuplicate, out of which Party A shall hold one, Party B shall hold two, the Guarantor shall hold two and the pledge registration authority shall hold one. The six originals shall be of the same force.

Party A: Shenzhen Highpower Technology Co., Ltd.

/s/ Pan Dang Yu  
Pan Dang Yu  
24 November 2009

(Official Seal)

Party B: Bank of China Limited, Shenzhen Buji Subbranch

/s/ Jiang Guo Liang  
Jiang Guo Liang  
24 November 2009

(Official Seal)

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### **Attachment 7: For Opening of Domestic L/C**

1. Where there is any difference between the Attachment and the Agreement, the Attachment shall be applied.

2. Preconditions agreed in the Agreement shall be met in case Party A applies to Party B for opening domestic L/C.

3. Party A undertakes the following responsibilities irrevocably:

(1) Party A is willing to comply with Rules for the Settlement of Domestic Letter of Credit and relevant national regulations, agrees that Party B will go through all issues under the L/C based on the Rules for the Settlement of Domestic Letter of Credit and relevant national regulations and agrees to bear all responsibilities thus generated.

(2) Party A guarantees that all materials provided to Party B for opening the L/C shall be true, complete and valid, and that the L/C to be opened shall be based upon actual transaction. Party A agrees to bear all responsibilities for the provision of any false and/or incomplete and/or invalid materials to Party B and/or for the lack of actual transaction background for the L/C to be opened.

(3) Prior to paying the sum of L/C to Party B by Party A, Party A commits that the title to the goods shall be attributable to Party B in case the goods under L/C is subject to actual control of Party A.

(4) Party A shall bear all effects arising from the unclear or ambiguous application letter.

4. Opening and Modification of domestic L/C

(1) In case Party B accepts Party A's application for opening domestic L/C, it shall issue domestic L/C according to Application Letter for Opening Domestic L/C submitted by Party A, while the detailed content shall be subject to the domestic L/C issued by Party B.

(2) Party's requirement of submitting documents or files such as trade contracts etc relating to the opening of domestic L/C shall not be interpreted as Party's obligation to issue the domestic L/C subject to the said documents or files.

(3) In case Party A intends to modify domestic L/C, it shall submit Application Letter for the Modification of Domestic L/C to Party B. Party A agrees that Party B will go through the modification issues of domestic L/C in compliance with Rules for the Settlement of Domestic Letter of Credit and agrees to undertake the liabilities and responsibilities thus generated. The Application Letter for the Modification of Domestic L/C shall, upon issuance, be binding upon Party A.

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(4) Party B shall have the independent discretion regarding the modification of domestic L/C, it shall have the right to reject the modification application letter of Party A and the right to propose the modification content. In case the modification of domestic L/C involves sum and period etc which is deemed by Party B to increase the obligation of the guarantor, Party B shall be entitled to require Party A to increase deposit, and/or require Party A to obtain the signature and agreement of the guarantee in the Application Letter for the Modification of Domestic L/C, or else Party B shall have the right to reject the modification application of Party A.

(5) Modification of domestic L/C shall not modify other rights and obligations of Party A in the Agreement and the Attachment.

(6) Content relating to domestic L/C in the Application Letter for the Opening of Domestic Letter of Credit and the Application Letter for the Modification of Domestic L/C shall be filled in Chinese, and all responsibilities generated due to the ambiguity caused by the unclear writing or ambiguous wording in application letter shall be borne by Party A.

(7) Party A shall pay all expenses (incl. relevant banking fees refused by the beneficiary of the L/C) arising from the opening and modification of domestic L/C in a timely manner, the charging method shall be subject to Party B' rules.

#### 5. Payment under domestic L/C

(1) Within the valid period of domestic L/C, Party A shall, upon receiving Party A' notice about documents received, inform Party B within agreed period in the notice the method of processing documents; or else it shall deemed that Party A holds no rejection opinions about the documents and agrees Party B to pay/commit for payment; in case Party A inform Party B within agreed period in the notice to receive documents, and Party B agrees with Party A's document handling opinions, Party B may pay the sum/commit to pay the sum concerned. Party A shall deposit payable sum as agreed in Application Letter for Opening Domestic Letter of Credit.

In case Party A informs Party B to receive documents yet Party B disagrees with Party A's document handling opinions, Party B shall have the right to determine at its own discretion whether or not reject the payment solely in light of documents; where Party A agrees to provide sufficient deposit or other payment guarantee to Party B, Party B shall have the right to determine whether to release the right of reject or not according to actual situations or whether to reserve the right of rejection at its own discretion.

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(2) In case Party A deems any discrepancy existed in documents and request to reject the payment/ commitment of payment within agreed period in notice, it shall list discrepancies all at once and shall submit the Cause for Rejection of Demand in duplicate stamped with Party A's reserved seal. Party B shall have the right to deem discrepancies listed in the Cause for Rejection of Demand as all discrepancies proposed by Party A regarding documents. Party B may reject the payment in case it agrees with Party A for discrepancies proposed, while Party B shall have the right to determine the payment/commitment of payment in case it deems, according to review subject to practices, the discrepancies listed by Party A can not hold water, or the discrepancies listed are immaterial discrepancies which can not lead to reject of payment, subsequent to which Party B may pay the sum by the payable sum deposited by Party A, all obligations and responsibilities arisen thereby shall be undertaken by Party A.

(3) In case the payable sum deposited by Party A hereunder is sufficient and thereby Party B advances for Party A the sum payable, it shall constitute, upon the payment of the sum, Party A's liability to Party B under the Agreement and the Attachment.

#### 6. Supplemental agreement

In addition to the content agreed in the Agreement, Party A hereby makes the following supplemental commitment to Party B regarding the business under the Attachment:

(1) Upon the issuance of domestic letter of credit, Party A shall immediately inform Party B in written form in case of any modification made to trade contracts which relates to the domestic letter of credit;

(2) With respect to delayed payment confirmed by Party B, Party A shall not request Party B to suspend the payment for any cause and shall waive the right, as required by laws, regulations and rules, to apply to the people's court for freezing the sum under domestic letter of credit or the right to appeal to the people's court for suspending the sum under domestic letter of credit;

(3) The risk of missing, delaying, omitting or damaging correspondence or documents under domestic letter of credit in mail delivery, telecommunication delivery or other delivery and the risk of using third party service by Party B shall be borne by Party A.

7. Any other issues under the Attachment shall be subject to the agreement in the Application Letter for Opening Domestic Letter of Credit and Application Letter for Modification of Domestic Letter of Credit.

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## **Attachment 9: Buyer Bill Advance of Domestic L/C**

1. Where there is any difference between the Attachment and the Agreement, the Attachment shall be applied.
2. Buyer bill advance refers to that Party B will, upon receiving documents from negotiation bank or remitting bank, will grant Party A short-term finance with Party A's requirement to pay the sum subject to the documents.

### 3. Preconditions of bill advance:

- (1) The preconditions agreed in the Agreement shall be met for Party A's application of buyer bill advance with Party B.
- (2) The letter of credit shall indicate the Rules for Settlement of Domestic Letter of Credit issued by the People's Republic of China or the updated version thereof with the form and content reviewed and approved by Party B.

### 4. Party B's application for bill advance

Party A shall submit the Application for Bill Advance under Domestic Letter of Credit for each application of bill advance business ("transaction").

Every transaction hereunder shall be interdependent, which shall be in compliance with the Attachment, relevant Letter of Credit and Party A's application.

### 5. Payment

Upon meeting preconditions for bill advance, Party B will accept Party A's application for buyer bill advance, while Party B shall, subject to the sum agreed in Application for Bill Advance under Domestic Letter of Credit acceptable by it, pay the sum under L/C on behalf of Party A. Relevant issues including period of bill advance etc shall be subject to the Application for Bill Advance under Domestic Letter of Credit aforementioned.

### 6. Party A acknowledges hereby that:

- (1) Party B shall be entitled to dispose of the complete set of documents/goods under buyer bill advance or any other security interest or interest in property attributable to it by any applicable laws and regulations. In case the right of disposing of the complete set of documents/goods under buyer bill advance shall be attributing to Party A in accordance with applicable laws and regulations or the judgment of any people's court or arbitration institution with jurisdiction, Party A agrees that within the largest extent as permitted by applicable laws and regulations it will transfer the right to Party B and acknowledge any actions and omission of Party A in disposing of the documents/goods. In case the right of disposing of the complete set of documents/goods under buyer bill advance shall be attributing to Party B in accordance with applicable laws and regulations or the judgment of any people's court or arbitration institution with jurisdiction, Party B will reserve the right until the complete discharge by Party A of the bill advance financing surrendered by Party B.
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(2) Party A, as Party B's assignee, applies to Party B for holding documents/goods and repay the bill advance financing by Party B through sales proceeds, which include but not limited to, on behalf of Party B, keeping relevant documents, going through the warehousing, storage, transport, processing, sales and insurance etc of the goods under the documents, keep the sales proceeds or deposit the sales proceeds in the account designated by Party B. Party A shall indicate the status hereunder when selling goods to third party.

(3) All expenses (including but not limited to insurance, warehousing, storage, port fee etc) arising from goods under Party A's custody shall be borne by Party A; Party A commits to insure the goods against all possible risks at the market value of the goods, list Party B as the insured in the original insurance certificate and present original insurance certificate to Party B for safekeeping. Party B shall have the right to claim against insurance company in case of losses to insured goods.

(4) Without Party B's permission, Party A shall not dispose of the goods through delayed payment, payment in non-monetary manner or at the price lower than market price. Party A shall not pledge or mortgage the goods to any party or set the goods bound by any lien. Upon Party B's demand, Party A shall submit to Party B the details of the account of the goods, any sales revenue or any sales contract relating to the goods; Party B shall be entitled to inspect the actual condition of the goods in warehouse or occupy the goods again.

#### 7. Supplemental commitment

In addition to the content agreed in the Agreement, Party A shall make the following supplemental commitment to Party B regarding the business under the Attachment:

Party A commits that the sales proceeds under the domestic letter of credit shall be used for the repayment of the financing for Party A surrendered by Party A.

8. Any other detailed issues relating to the business under the Attachment shall be subject to the agreement contained in the Application for the Buyer Bill Advance under Domestic L/C.

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## Guaranty Contract of Maximum Amount

No.:000455C Account Guarantee Agreement Issued in 2009  
by (Shenzhen Buji Subbranch) Bank of China

Guarantor: \_\_\_\_\_

No of business license/ID No: \_\_\_\_\_

Legal Representative/Person in Charge: \_\_\_\_\_/\_\_\_\_\_

Residential Address: \_\_\_\_\_

Post Code: \_\_\_\_\_

Related Bank of Opening and Account Number: \_\_\_\_\_/\_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

Party B: Shenzhen Buji Subbranch of Bank of China Limited

Legal Representative/Person in Charge: Jiang Guoliang

Residential Address: No 108, Phuket Road, Phuket Town, Longgang District, Shenzhen

Phone: 28274825 Fax: 28270847

Post Code: 518112

In order to ensure that the liabilities described in Article I of the contract can be performed, the guarantor is ready to provide the creditor with assurance. This contract is established based on the equal negotiation between the two sides. Otherwise additional agreements, explanations of clauses in this contract shall depend on the main contract.

### Article I Main Contract

Main contract of the contract is as follows:

The creditor with the debtor, Shenzhen Highpower Technology Co., Ltd. signed the Agreement of Line of Credit numbered 000455 Account Guarantee Agreement Issued in 2009 by (Shenzhen Buji Subbranch) Bank of China and the single agreements that have been signed or to be signed based on this agreement, and revisions or supplements are agreed to belong to the main contract of this contract.

### Article II Principal Creditor's Rights and Its Valid Period

Besides the valid period defined by law or agreements, in the following periods the creditor's rights actually working under the main contract construct the principal creditor's rights of the contract:

From the day when Agreement of Line of Credit mentioned in Article I comes into force to the day when the line of credit defined in the agreement and its revisions or supplements expires.

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### **Article III Guaranteed Highest Amount of Credit**

1. Principal balance of the guaranteed highest amount of credit in this contract is:

Type of currency: RMB.

Sum: (in words) one hundred million Yuan  
(in figures) RMB100,000,000.00

2. On the day when the principal creditor's rights defined in Article II come to the end, if what is defined to belong to the guaranteed principal creditor's right in the contract, then the resulting interest (including legal interest, contract interest, compound interest, default interest), penal sum, claim for damages, cost for realizing creditor's rights (including but not limit to court cost, attorney fee, notarial fee, executive fee, etc) based on the principal creditor's right, loss to the creditor caused by the debtor's breach and other payable costs all belong to the guaranteed creditor's rights, specific amount of which shall be determined when being paid.

The summation of the creditor's rights defined according to the above two articles is the guaranteed highest amount of credit of the contract.

### **Article IV Guaranteeing Modes**

The guaranteeing mode of this contract is No. 1 of the followings:

1. Guaranteed with responsibilities;
2. General guaranty.

### **Article V Occurrence of Guaranteeing Responsibilities**

If the debtor does not clean off the debt to the creditor on any normal paying day or advanced day for paying under the main contract, the creditor observes the right to ask the guarantor to bear the guaranteeing responsibilities.

The normal paying day referred in the above article means the day of principal repayments, interest paying day agreed in the main contract or the time when the debtor shall pay any fund to the creditor according to the contract. The advanced paying day mentioned in the above article refers to the paying day put forward by the debtor and agreed by the creditor the paying time in which the creditor requests the debtor to clear off the principal and interest or any other found ahead of time in line with the contract or certain agreement.

In case the main liabilities consists of other collaterals or guarantees besides that of the contract, it does not affect the creditor's any right and performance under the contract and the guarantor shall not defend the creditor for this reason.

### **Article VI Guaranteeing Period**

The guaranteeing period of the contract is within two years since the expiring date of occurrence period of the principal liabilities specified in Article II of the contract.

During the guaranteeing period, the creditor has the right to require the guarantor to bear the guaranteeing responsibilities for all or part of, a number of or single, together or individual principal creditor's rights.

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## **Article VII Suit Time Effect of Guaranteeing Liabilities**

If the creditor is not repaid under the mode of guaranteeing with responsibilities and the creditor requests the guarantor to bear guaranteeing responsibilities before the expiring date of the guaranteeing period specified in Article VI of the contract, then since the day when the creditor asks the guarantor to bear guaranteeing responsibilities, the guaranteeing liabilities shall start to be calculated and the time effect of suit is workable.

Under the general guaranteeing mode, if the creditor sues the debtor or applies arbitration before the expiring date of the guaranteeing period specified in Article VI of the contract, then from the date of entry into force of adjudication or judgment of arbitration, the guaranteeing liabilities shall start to be calculated and the time effect of suit is workable.

## **Article VIII Relationship between the Contract and the Main Contract**

If the main contract contains *Agreement of Line of Credit or General Agreement of Loan Business*, in which the service life of line of credit and the clause of partnership are extended, the written approval of the guarantor is hereby needed; if the guarantor does not agree or rejects, the guarantor only bears the guaranteeing responsibilities for the principal creditor's rights occurring in the service life of the original line of credit or the clause of partnership of the business within the guaranteed highest amount of credit specified in Article III of the contract and the guaranteeing period is also the original one.

As for modifications of the other contents or matters of *Agreement of Line of Credit or General Agreement of Loan Business*, modifications of the single-agreement under them or of single main contract, the approval of the guarantor is unnecessary, and the guarantor also bears the guaranteeing responsibilities of the modified main contract within the guaranteed highest amount of credit specified in Article III of the contract. In case the creditor and the guarantor reach a consensus through consultation, the guaranteed highest amount of credit specified in Article III of the contract can be modified in the form of writing.

If the creditor entrusts China Bank Limited or other banks to carry out all or part of the rights and obligations under the main contract or transfers the principal creditor's right to a third party, it is unnecessary to get the guarantor's approval and the guaranteeing responsibilities of the guarantor shall not be reduced or exempted for this reason.

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## Article IX Declaration and Commitment

The guarantor made the following declarations and commitments:

1. The guarantor shall register by law and carry out legal duration, process absolute capacity for private rights and capacity for action required to sign and implement the contract;
2. The guarantor thoroughly understands the content of the main content, so signing and implementing the contract is the guarantor's genuine intention, for which the guarantor has got the legal and effective authorization in line with the statute or regulations of other internal administrative documents.

If a company as the guarantor providing the guaranty, it has been passed by the resolution on the board of directors or board of shareholders, general meeting of stockholders according to the regulations of the company statute; when the guaranteed total amount and the single guaranteed amount are limited in the company statute, the guaranteed amount under the contract is not beyond the specified limitation.

Signing and implementation of the contract shall not violate any contract, agreement or other law documents which have restricting power to the guarantor;

3. All the documents and data provided for the creditor by the guarantor shall be accurate, true, complete and effective;
4. The guarantor shall receive supervision and inspection carried out by the creditor as to production, operation and finance situation, and provide help and cooperation;
5. The guarantor does not hide the heavy debts bearing since the signing date of the contract to the creditor;
6. If the followings possibly affecting the finance and capacity to perform the contract of the guarantor occur, including but not limit to any forms of changes in schism, amalgamation, joint operation, cooperation with foreign business, cooperation, contract operation, recombination, reform, planned going to market, reduction of registered capital, grand capital or share holding transfer, bearing heavy debts, disbandment, revocation, forced into bankruptcy, etc or being involved in important lawsuits or arbitrations, the guarantor shall timely inform the creditor.

## Article X Disclose of the Involved Parties and Involved Transactions inside the Group of the Guarantor

Both sides agree to apply No 1 clause mentioned below:

1. The guarantor does not belong to the customer group defined by the creditor in line with *Guidelines for the Risk Management by Commercial Banks for Granting Credit to Customer Groups*, short for *Guidelines*.
  2. The guarantor belongs to the customer group defined by the creditor based on *Guidelines*. The guarantor shall in line with Article XVII of *Guidelines* timely report to the creditor more than 10percent of the involved transaction, including the related relationship of the transaction parties, transaction clauses, nature, amount or related ratio and pricing policy (including transactions with zero amount or symbolic amount).
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## **Article XI Events of Default and Handling**

One of the following events constitutes or can be considered as the guarantor's default of the contract:

1. The guarantor does not timely perform the guaranteeing responsibilities according to the agreement of the contract;
2. The declarations made in the contract are not true or breach the commitments made in the contract;
3. The event described in Clause 6 of Article IX occurs, having a strong impact on the finance and capacity to perform the contract of the guarantor;
4. The guarantor terminates operation or events of disbandment, revocation and bankrupt occur;
5. The guarantor violates other agreements relating to rights and obligations of litigants;
6. The guarantor has other events of default under the contract with the creditor or Bank of China Limited or other banks.

When the events of default specified in the above clauses appear, the creditor has the right to separately or simultaneously take the following actions as the case maybe:

1. Require the guarantor to correct the breach within a limited time;
2. Wholly or partly scale down, suspend or terminate the guarantor's line of credit;
3. Wholly or partly suspend or terminate other business applications of the guarantor under the contract; wholly or partly suspend or terminate the granting and handling of the non-granted credit and non-handled trade financing;
4. Announce that the whole or part of the guarantor's outstanding loan, interest on principal of trade financing and other payable fund under the contract become immediately due;
5. Terminate or cancel the contract, and wholly or partly terminate or cancel other contracts between the guarantor and the creditor;
6. Require the guarantor to compensate the loss of the creditor caused by the breach;
7. The creditor only needs the advance notice or post notice to deduct the fund from the guarantor's account opened at the creditor's side to wholly or partly clear off the guarantor's debt to the creditor. The undue funds in the account shall be considered to be due ahead of time. In case the currency type of the account is different from the creditor's money of account, the deduction is in line with the exchange rate of the foreign exchange sale and purchase.
8. Other actions that the creditor considers necessary.

## **Article XII Reservation of Right**

If one party does not exercise all or part of the rights under the contract, or does not require the other to exercise, bear part of or all the obligations, responsibilities, it shall not mean the party gives up the rights or exempts from the obligations, responsibilities.

If one party allows any tolerance, extension and delay in implementing the rights under the contract upon the other party, it shall not affect the party to process any right in line with the contract, related law and regulations, and it also shall not considered giving up the right.

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### **Article XIII Modification, Revision and Termination**

The contract agreed by both parties shall be modified and revised in the form of writing, and any modification and revision shall become the inseparable part of the contract.

Otherwise it is additionally specified by law or regulations or agreed by the litigants, the contract shall not terminate before all the involved rights and obligations are completely performed.

Otherwise it is additionally specified by law or regulations or agreed by the litigants invalidity of any clause of the contract has no impact on the legal force of other clauses of the contract.

### **Article XIV Application of Law and Dispute Resolution**

Laws of the People's Republic of China apply to the contract.

As for all the controversies, disputes resulted in the contract shall be resolved through negotiation of both parties, if failure, then the both parties shall adopt the resolution of disputes in line with the agreement in the main contract.

During the resolving period, if the dispute has no impact on the implementing of other clauses, other clauses shall continue to be performed.

### **Article XV Costs**

Otherwise it is additionally specified by law or regulations or agreed by the litigants, costs (including attorney fee) resulted in the establishment, performance and dispute resolution of the contract shall be born by the guarantor.

### **Article XVI Appendix**

Appendixes conformed by both parties shall become the inseparable part of the contract, sharing the same legal force with the contract.

### **Article XVII Other Agreement**

1. Without the written approval of the creditor, the guarantor shall not transfer any right, obligation to a third party;
  2. If the creditor entrusts the Bank of China Limited or other banks to implement the rights and obligations of the contract because of business need, the guarantor shall approve this, so the Bank of China Limited or other banks entrusted by the creditor observes the right to implement all the rights of the contract and lodge a complaint to the court or submit to the arbitration agency for adjudication as to the disputes resulting in the contract;
  3. In case other agreements of contract are not affected, the contract has the same legal force to the both parties, the generated successors by law and transferees;
  4. Otherwise there is additional agreement, the residential address named herein by both parties shall be the mailing address and contact address, for which both parties shall promise to timely inform the other party in case the mailing address or contact address is changed;
  5. Titles and business names in the contract are only adopted out of convenience, which shall not be used to explain the clause contents and rights, obligations of the litigants.
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**Article XVIII Entry into Force of the Contract**

This contract shall take effect since being signed and sealed by legal representatives, persons in charge and the entrusted signer of both parties.

This contract is in triplicate, and Party A has one, Party B has one, all of which are of the same effect.

Guarantor: \_\_\_\_\_

Creditor: Shenzhen Buji Subbranch, Bank of Bank of China Limited

Authorized Signatory: \_\_\_\_\_

November 24, 2009

Authorized Signatory: /s/ Jiang Guoliang

November 24, 2009

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[INFORMATION FOR PURPOSES OF FILING WITH THE SECURITIES AND  
EXCHANGE COMMISSION]

SCHEDULE A

GUARANTORS WHO ENTERED INTO THE GUARANTY CONTRACT OF MAXIMUM AMOUNT

- Dan Yu Pan
  - Wen Wei Ma
  - Wen Liang Li
  - Spring Power Technology (Shenzhen) Co., Ltd.; executed by Dang Yu Pan as legal representative
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**Consent of Independent Registered Public Accounting Firm**

**Permitting Hong Kong Highpower Technology, Inc. to Use and Attach our Audit Report in**

**any filings required by the SEC**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-1 (File No. 333-157443) of Hong Kong Highpower Technology, Inc. of our report dated March 30, 2010 with respect to the consolidated financial statement as of December 31, 2009 and for the three years in the period ended December 31, 2009 of Hong Kong Highpower Technology, Inc. included in this Annual Report on Form 10-K for the year ended December 31, 2009.

/s/ Dominic K.F. Chan & Co.  
Dominic K.F. Chan & Co.  
Certified Public Accountants

Hong Kong, March 30, 2009





**Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Dang Yu Pan, certify that:

1. I have reviewed this annual report on Form 10-K of Hong Kong Highpower Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2010

By: /s/ Dang Yu Pan

Dang Yu Pan  
Chairman of the Board and  
Chief Executive Officer  
(Principal Executive Officer)

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**Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Henry Ngan, certify that:

1. I have reviewed this annual report on Form 10-K of Hong Kong Highpower Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2010

/s/ Henry Ngan

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Henry Ngan  
Chief Financial Officer  
(Principal Financial Officer)

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**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Hong Kong Highpower Technology, Inc. (the "Company") on Form 10-K for the year ending December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the date indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 30, 2010

/s/ Dang Yu Pan

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Dang Yu Pan  
Chairman of the Board and  
Chief Executive Officer  
(Principal Executive Officer)

March 30, 2010

/s/ Henry Ngan

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Henry Ngan  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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