UNITED STATES

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM 10-Q

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

For The Quarterly Period Ended June 30, 2012

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.: 001-34098

HIGHPOWER INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

Delaware 20-4062622

(State or other jurisdiction of incorporation or organization)

X

(I.R.S. Employer Identification Number)

Building A1, 68 Xinxia Street, Pinghu, Longgang, Shenzhen, Guangdong, 518111, People's Republic of China (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)(ZIP CODE)

(86) 755-89686292

(COMPANY'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T ($\S232.405$ of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes \boxtimes No \square

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" as defined in Rule 12b-2 of the Exchange Act.

L	arge accelerated filer	Accelerated filer □	
N	Non-accelerated filer □	Smaller reporting company 区	
	Indicate by check mark whether the registrant is a shell comp	any (as defined in Rule 12b-2 of the Exchange Act). Yes \Box	No ⊠
egistrar	The registrant had 13,582,106 shares of common stock, part's common stock is listed on the Nasdaq Global Market under	ar value \$0.0001 per share, outstanding as of August 12, 2 r the stock symbol "HPJ."	012. The

HIGHPOWER INTERNATIONAL, INC. FORM 10-Q FOR THE QUARTERLY PERIOD ENDED June 30, 2012 INDEX

			Page
Part I	Financial In	formation	
	Item 1.	Consolidated Financial Statements	
		(a) Consolidated Balance Sheets as of June 30, 2012 (Unaudited) and December 31, 2011	1
		(b) Consolidated Statements of Operations and Comprehensive Income (loss) for the Three and Six Months Ended June 30, 2012 and 2011 (Unaudited)	3
		(c) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011 (Unaudited)	4
		(d) Notes to Consolidated Financial Statements (Unaudited)	5
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	37
	Item 4.	Controls and Procedures	38
Part II	Other Infor	mation	
	Item 1.	Legal Proceedings	38
	Item 2.	Unregistered Sale of Equity Securities and Use of Proceeds	38
	Item 3.	Default Upon Senior Securities	38
	Item 4.	Mine Safety Disclosures	38
	Item 5.	Other Information	38
	Item 6.	Exhibits	40
Signatur	es		41

Item 1. Consolidated Financial Statements

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Stated in US Dollars)

(Unaudited) \$ 5,119,991 18,017,812 25,753,706 1,731,336 3,638,489 789,134 16,368,579 71,419,047 28,979,438 4,384,150 725,000 745,328	5,175,623 12,708,999 21,129,418 515,107 4,251,723 1,041,614 13,512,942 58,335,426 25,462,656 3,132,965 750,000 857,209
18,017,812 25,753,706 1,731,336 3,638,489 789,134 16,368,579 71,419,047 28,979,438 4,384,150 725,000	12,708,999 21,129,418 515,107 4,251,723 1,041,614 13,512,942 58,335,426 25,462,656 3,132,965 750,000 857,209
18,017,812 25,753,706 1,731,336 3,638,489 789,134 16,368,579 71,419,047 28,979,438 4,384,150 725,000	12,708,999 21,129,418 515,107 4,251,723 1,041,614 13,512,942 58,335,426 25,462,656 3,132,965 750,000 857,209
18,017,812 25,753,706 1,731,336 3,638,489 789,134 16,368,579 71,419,047 28,979,438 4,384,150 725,000	12,708,999 21,129,418 515,107 4,251,723 1,041,614 13,512,942 58,335,426 25,462,656 3,132,965 750,000 857,209
18,017,812 25,753,706 1,731,336 3,638,489 789,134 16,368,579 71,419,047 28,979,438 4,384,150 725,000	21,129,418 515,107 4,251,723 1,041,614 13,512,942 58,335,426 25,462,656 3,132,965 750,000 857,209
1,731,336 3,638,489 789,134 16,368,579 71,419,047 28,979,438 4,384,150 725,000	515,107 4,251,723 1,041,614 13,512,942 58,335,426 25,462,656 3,132,965 750,000 857,209
3,638,489 789,134 16,368,579 71,419,047 28,979,438 4,384,150 725,000	515,107 4,251,723 1,041,614 13,512,942 58,335,426 25,462,656 3,132,965 750,000 857,209
789,134 16,368,579 71,419,047 28,979,438 4,384,150 725,000	1,041,614 13,512,942 58,335,426 25,462,656 3,132,965 750,000 857,209
789,134 16,368,579 71,419,047 28,979,438 4,384,150 725,000	13,512,942 58,335,426 25,462,656 3,132,965 750,000 857,209
71,419,047 28,979,438 4,384,150 725,000	13,512,942 58,335,426 25,462,656 3,132,965 750,000 857,209
71,419,047 28,979,438 4,384,150 725,000	58,335,426 25,462,656 3,132,965 750,000 857,209
28,979,438 4,384,150 725,000	25,462,656 3,132,965 750,000 857,209
4,384,150 725,000	3,132,965 750,000 857,209
4,384,150 725,000	3,132,965 750,000 857,209
725,000	750,000 857,209
	857,209
	15,653
106,252,963	88,553,909
100,232,903	88,333,909
15.060	
	22,153,822
	22,133,822
	17,909,843
, ,	, ,
	2,880,000 6,941,063
	411,536
· · · · · · · · · · · · · · · · · · ·	
14,179,842	9,545,383
60.226.022	50.041.645
68,326,822	59,841,647
7 967 607	
7,007,097	
76 104 510	59,841,647
70,194,319	39,041,047
	15,969 23,842,503 648,298 20,801,187 - 8,361,253 477,770 14,179,842 68,326,822 7,867,697 76,194,519

HIGHPOWER INTERNATIONAL, INC AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (CONTINUED) (Stated in US Dollars)

	June 30,	December 31, 2011
	(Unaudited)	2011
	\$	\$
EQUITY		
Stockholder's equity		
Preferred Stock		
(Par value: \$0.0001, Authorized: 10,000,000 shares, Issued and outstanding: none)	-	-
Common stock		
(Par value: \$0.0001, Authorized: 100,000,000 shares, 13,582,106 shares issued and outstanding at June		
30, 2012 and December 31, 2011)	1,358	1,358
Additional paid-in capital	5,924,400	5,831,237
Statutory and other reserves	2,726,390	2,726,390
Retained earnings	16,145,555	15,638,656
Accumulated other comprehensive income	4,376,658	4,514,621
Total equity for the Company's stockholders	29,174,361	28,712,262
		<u> </u>
Non-controlling interest	884,083	_
Troit controlling interest	001,003	
TOTAL EQUITY	20.050.444	20.712.262
TOTAL EQUIT	30,058,444	28,712,262
TOTAL LIABILITIES AND EQUITY	106,252,963	88,553,909
See notes to consolidated financial statements		

\HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (Stated in US Dollars)

	Three months ended June 30,		Six month June	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$	\$	\$	\$
Net sales	29,377,682	29,708,154	49,980,465	56,658,820
Cost of sales	(23,369,258)	(24,942,124)	(40,299,782)	(47,892,431)
Gross profit	6,008,424	4,766,030	9,680,683	8,766,389
Research and development costs	(1,233,585)	(873,383)	(2,117,931)	(1,478,428)
Selling and distribution costs	(1,282,499)	(980,663)	(2,481,399)	(2,155,348)
General and administrative costs, including				
stock-based compensation	(2,263,983)	(2,098,497)	(4,278,468)	(4,205,335)
Income (loss) on exchange rate difference	153,360	(297,768)	122,030	(470,703)
Gain (loss) on derivative instruments	(304,147)	156,380	32,956	(234,196)
Equity loss in an associate	_	(2,199)	_	(3,971)
Income from operations	1,077,570	669,900	957,871	218,408
Other income	61,185	66,119	228,218	218,255
Interest expenses	(301,123)	(170,591)	(313,441)	(260,142)
Income before taxes	837,632	565,428	872,648	176,521
Income taxes expense	(362,941)	(137,017)	(416,266)	(142,778)
Net income	474,691	428,411	456,382	33,743
		120,111	150,502	33,713
Less: net loss attributable to non-controlling interest	(29,023)	-	(50,517)	-
Net income attributable to the Company	503,714	428,411	506,899	33,743
Comprehensive income				
Net income	474,691	428,411	456,382	33,743
Foreign currency translation (loss) gain	(300,800)	3,015	(155,895)	(15,768)
Comprehensive income	173,891	431,426	300,487	17,975
comprehensive meeme	173,891	431,420	300,487	17,973
Less: comprehensive loss attributable to non-controlling interest	(46,997)	-	(68,449)	-
Comprehensive income attributable to the Company	220,888	431,426	368,936	17,975
Earnings per share of common stock attributable to the Company				
- Basic	0.04	0.03	0.04	-
- Diluted	0.04	0.03	0.04	
Weighted average common shares outstanding				
- Basic	13,582,106	13,582,106	13,582,106	13,582,106
- Diluted	13,582,106	13,582,661	13,582,106	13,582,578

See notes to consolidated financial statements

HIGHPOWER INTERNATIONAL, INC AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Stated in US Dollars)

	Six months en	ded June 30,
	2012	2011
	(Unaudited)	(Unaudited)
Cash flows from operating activities	φ	\$
Net income	456,382	33,743
	430,382	33,743
Adjustments to reconcile net loss to net cash provided by operating activities:	000.544	002 221
Depreciation and amortization Allowance for doubtful accounts	999,544 282,127	883,231 61.026
Loss on disposal of property, plant and equipment	56,703	6,636
Equity loss in an associate	30,703	3,971
Loss on derivative instruments	31,278	234,196
Deferred income tax	106,644	234,190
Share based payment	93,164	277,180
	75,104	277,100
Changes in operating assets and liabilities : Accounts receivable	(4.071.615)	(620 177
Notes receivable	(4,971,615) (1,227,504)	(629,177) (550,505)
	591,874	(3,889,931)
Prepayments Other receivable	240,454	11,223
Inventories	(2,907,198)	899,528
Accounts payable	5,680,116	(2,000,570)
Deferred revenue	652,157	(2,000,370)
Other payables and accrued liabilities	1,481,165	60,682
Income taxes payable	69,855	(1,072,317)
Net cash flows provided by (used in) operating activities		
rec cash hows provided by (used in) operating activities	1,635,146	(5,671,084)
Cash flows from investing activities		
Acquisition of plant and equipment	(8,484,171)	(2,930,714)
Acquisition of land use right	(1,326,010)	(2,730,714)
Net cash flows used in investing activities		(2.020.714)
Tee cush nows used in investing activities	(9,810,181)	(2,930,714)
Cash flows from financing activities		
Proceeds from short-term bank loans	5,871,646	7,086,802
Repayment of short-term bank loans	(1,196,676)	(8,422,290)
Proceeds from long-term bank loans	7,914,523	(6,422,290)
Proceeds from notes payable	19,682,410	18,387,317
Repayment of notes payable	(16,633,527)	(10,225,663)
Proceeds from letter of credit	(10,033,321)	5,508,490
Repayment of letter of credit	(2,880,000)	5,500,490
Proceeds from non-controlling interest	949,743	_
Decrease in restricted cash	(5,387,117)	(5,167,034)
Net cash flows provided by financing activities		
	8,321,002	7,167,622
Effect of foreign currency translation on cash and cash equivalents	(201,599)	466,547
Net decrease in cash and cash equivalents	(55,632)	(967,629)
Cash and cash equivalents - beginning of period	5,175,623	8,490,629
Cash and cash equivalents - end of period	5,119,991	7,523,000
Supplemental disclosures for cash flow information:		
Cash paid for:		
Income taxes	239,767	386,314
Interest expenses	590,399	386,313
Non-cash transactions		
Accounts payable for construction in progress	1,501,464	_
	,= ,= , , , , , ,	

See notes to consolidated financial statements

1. Organization and basis of presentation

The consolidated financial statements include the financial statements of Highpower International, Inc. ("Highpower") and its subsidiaries, Hong Kong Highpower Technology Company Limited ("HKHTC"), Shenzhen Highpower Technology Company Limited ("SZ Highpower"), Highpower Energy Technology (Huizhou) Company Limited ("HZ Highpower"), Springpower Technology (Shenzhen) Company Limited ("SZ Springpower"), Ganzhou Highpower Technology Company Limited ("GZ Highpower"), Icon Energy System Company Limited ("ICON") and Huizhou Highpower Technology Limited ("HZ HTC"). Highpower and its subsidiaries are collectively referred to as the "Company".

Highpower was incorporated in the State of Delaware on January 3, 2006 to locate a suitable acquisition candidate to acquire. HKHTC was incorporated in Hong Kong on July 4, 2003 and organized principally to engage in the manufacturing and trading of nickel metal hydride rechargeable batteries. All other subsidiaries were incorporated in the People's Republic of China ("P.R.C.").

On February 8, 2012, GZ Highpower, which was incorporated in September 21, 2010, increased its registered capital to RMB30,000,000 (\$4,762,586) from RMB2,000,000 (\$293,574). SZ Highpower holds 60% of the equity interest of GZ Highpower, and four founding management members hold the remaining 40%. As of June 30, 2012, the paid-in capital was approximately RMB15,000,000 (\$2,381,293).

On March 8, 2012, the Company invested RMB5,000,000 (\$791,377) in HZ HTC, which is a wholly-owned subsidiary of SZ Highpower. HZ HTC engages in the manufacture of batteries.

The subsidiaries of the Company and their principal activities are described as follows:

Name of company	Place and date incorporation	Attributable equity interest held	Principal activities
Hong Kong Highpower Technology Co., Ltd ("HKHTC")	Hong Kong July 4, 2003		Investment holding
Shenzhen Highpower Technology Co., Ltd ("SZ Highpower")	P.R.C. October 8, 2002	100%	Manufacturing & marketing of batteries
Highpower Energy Technology (Huizhou) Co., Ltd ("HZ Highpower")	P.R.C. January 29, 2008	100%	Inactive
Springpower Technology (Shenzhen) Co., Ltd ("SZ Springpower")	P.R.C. June 4, 2008	100%	Research & manufacturing of batteries
Ganzhou Highpower Technology Co., Ltd ("GZ Highpower")	P.R.C. September 21, 2010	60%	Processing, marketing and research of battery materials
Icon Energy System Co., Ltd. ("ICON")	P.R.C. February 23, 2011	100%	Research and production of advanced battery packs and systems
Huizhou Highpower Technology Co., Ltd ("HZ HTC")	P.R.C. March 8, 2012	100%	Inactive

2. Summary of significant accounting policies

Basis of presentation

The accompanying consolidated balance sheet as of June 30, 2012, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements as of June 30, 2012 and for the three and six month periods ended June 30, 2012 and 2011 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures, which are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. The interim financial information should be read in conjunction with the Financial Statements and the notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the Company's consolidated financial position as of June 30, 2012, its consolidated results of operations for the three and six month periods ended June 30, 2012 and 2011, and its cash flows for the six month period ended June 30, 2012 and 2011, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Principle of consolidation

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

Non-controlling interests represent the ownership interests in GZ Highpower that are held by owners other than the parent and are part of the equity of the consolidated group. The non-controlling interests are reported in the consolidated balance sheets within equity, separately from the stockholders' equity. Net income or loss and comprehensive income or loss is attributed to the stockholders and the non-controlling interests. If losses attributable to the stockholders and the non-controlling interests in SZ Highpower's equity, the excess, and any further losses attributable to the stockholders and the non-controlling interests, is attributed to those interests.

2. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include revenues; the allowance for doubtful receivables; recoverability of the carrying amount of inventory; fair values of financial instruments; and the assessment of deferred tax assets or liabilities. These estimates are often based on complex judgments and assumptions that management believes to be reasonable but are inherently uncertain and unpredictable. Actual results could differ from these estimates.

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 management of the Company considers that the Company's credit risk is significantly reduced.

During the six months ended June 30, 2012 and 2011, there was one customer, Energizer Holdings, Inc., that accounted for 10% or more of total net revenue. The percentages of total net sales from Energizer Holdings, Inc. in the six months ended June 30, 2012 and 2011 were 17.8% and 21%, respectively.

The Company's top two third-party customers accounted for an aggregate of 33% of the accounts receivable as of June 30, 2012 and 25% of the accounts receivable as of December 31, 2011.

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.

Restricted cash

Certain cash balances are held as security for notes payable 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.

2. Summary of significant accounting policies (continued)

Inventories

Inventories are stated at lower of cost or market. Cost is determined using the weighted average method. Inventory includes raw materials, packing materials, work in progress and finished goods. The variable production overhead is allocated to each unit of production on the basis of the actual use of the production facilities. The allocation of fixed production overhead to the costs of conversion is based on the normal capacity of the production facilities.

Property, plant and equipment

Property, 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 capital expenditures for direct costs of construction or acquisition and design fees incurred, and the interest expense directly related to the construction. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate category of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. Construction in progress is not depreciated.

Land use rights, net

Land use rights represent payments for the rights to use certain parcels of land for a certain period of time in the P.R.C. Land use rights are carried at cost and charged to expense on a straight-line basis over the period the rights are granted.

Intangible assets

Intangible assets represent a royalty-bearing, non-exclusive license to use certain patents owned by Ovonic Battery Company, Inc. ("Ovonic"), an unrelated party, to manufacture rechargeable nickel metal hydride batteries for portable consumer applications ("Consumer Batteries") in the P.R.C, and a royalty-bearing, non-exclusive worldwide license to use certain patents owned by Ovonic to use, sell and distribute Consumer Batteries. The value of the licenses was established based on historic acquisition costs.

Intangible assets are amortized over their estimated useful lives, and are reviewed annually for impairment, or more frequently, if indications of possible impairment exist.

2. Summary of significant accounting policies (continued)

Deferred Revenue

Deferred revenue represents the government grants received related to developing property, and would be recognized over the useful lives of the assets. The Company received a grant of \$648,298 on May 28, 2012 from Department of Industry and Information Technology for the construction of the new factory in Ganzhou City, Jiangxi Province, P.R.C. The Company will apply the deferred revenue to reduce the cost basis of the assets, upon completion of construction of the warehouse, by reducing the annual depreciation charge over the estimated useful life of the property, plant and equipment of the new factory.

Revenue recognition

The Company recognizes revenue in accordance with ASC Topic 605. All of the following criteria must exist in order for the Company to recognize revenue: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) price to the buyer is fixed or determinable; and (4) collectability is reasonably assured.

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

Research and development

Research and development expenses include costs directly attributable to the conduct of research and development programs, including the cost of salaries, employee benefits, materials, supplies, maintenance of research equipment. All costs associated with research and development are expensed as incurred.

Advertising

Advertising which generally represents the cost of promotions to create or stimulate a positive image of the company or a desire to buy the company's products and services, is expensed as incurred. No advertising expense was recorded for the six months ended June 30, 2012 and 2011.

Income taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

2. Summary of significant accounting policies (continued)

Uncertain tax positions

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company classifies the liability for unrecognized tax benefits as current to the extent that the Company anticipates payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized and recorded as necessary in the provision for income taxes. There were no uncertain tax positions in June 30, 2012 and December 31, 2011.

Comprehensive income

Recognized revenue, expenses, gains and losses are included in net income or loss. Although certain changes in assets and liabilities are reported as separate components of the equity section of the consolidated balance sheet, such items, along with net income or loss, are components of comprehensive income or loss. The components of other comprehensive income or loss are consisted solely of foreign currency translation adjustments, net of the income tax effect.

Foreign currency translation and transactions

Highpower's functional currency is the United States dollar ("US\$"). HKHTC's functional currency is the Hong Kong dollar ("HK\$"). The functional currency of the Company's subsidiaries in the P.R.C is the Renminbi ("RMB").

At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction is measured initially in the functional currency of the recording entity by use of the exchange rate in effect at that date. The increase or decrease in expected functional currency cash flows upon settlement of a transaction resulting from a change in exchange rates between the functional currency and the currency in which the transaction is denominated is recognized as foreign currency transaction gain or loss that is included in determining net income for the period in which the exchange rate changes. At each balance sheet date, recorded balances that are denominated in a foreign currency are adjusted to reflect the current exchange rate.

The Company's reporting currency is US\$. Assets and liabilities of HKHTC and the P.R.C. subsidiaries are translated at the current exchange rate at the balance sheet dates, revenues and expenses are translated at the average exchange rates during the reporting periods, and equity accounts are translated at historical rates. Translation adjustments are reported in other comprehensive income.

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, bank borrowings, approximate their fair values due to the short-term maturity of such instruments.

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The Company establishes a fair value hierarchy that requires it to maximize the use of observable inputs and to minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

- -Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- -Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- -Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Derivatives

From time to time the Company may utilize forward foreign currency exchange contracts and future contracts related to nickel to reduce the impact of foreign currency exchange rate risk and nickel fair value risk. Management considered that the currency forwards and future contracts could not meet the criteria for designated hedging instruments and hedged transactions to qualify for cash flow hedge or fair value hedge accounting. The currency forwards and future contracts therefore are accounted for as derivatives, with fair value changes reported as gain (loss) of derivative instruments in income statement.

Earnings per share

Basic earnings per share is computed by dividing income attributable to holders of common shares by the weighted average number of common shares outstanding during the year. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares.

There were 727,500 and 902,500 options and warrants outstanding as of June 30, 2012 and 2011, respectively, which were not included in the calculation of diluted income per share for the periods ended because their effect would have been anti-dilutive.

2. Summary of significant accounting policies (continued)

Recently issued accounting pronouncements

In December 2011, The FASB issued ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05. ASU 2011-12 defers the requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income ("AOCI") in both net income and other comprehensive income ("OCI") on the face of the financial statements. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

In July 2012, the FASB issued ASU 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." This ASU simplifies how entities test indefinite-lived intangible assets for impairment which improves consistency in impairment testing requirements among long-lived asset categories. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, early adoption is permitted. The Company will adopt this ASU beginning with its Quarterly Report on Form 10-Q for the three months ended September 30, 2012. There should be no material impact on the consolidated financial statements upon adoption.

Except for the ASUs above, in the period ended August 10, 2012, The FASB has issued ASU No. 2012-01 through ASU 2011-02, which is not expected to have a material impact on the consolidated financial statements upon adoption.

3. Correction of previously issued consolidated financial statements

Certain comparative amounts in prior periods have been corrected to conform to the current period's presentation. The principal corrections related to: 1) the separate presentation of loss of derivative instruments related to currency forwards as an operating cost line item in the statement of operations, which was previously included in other income for settled transactions and other comprehensive income under cash flow hedge for unsettled transactions; 2) the separate presentation of research and development costs as an operating cost line item in the statement of operations, which was previously included in general and administrative costs; and 3) correcting accounting errors such as recognition of capitalized interest.

The Company also identified errors in the consolidated statements of operations and comprehensive income (loss) related to the weighted average number of common stock outstanding for diluted earnings per common share for the three months and six months ended June 30, 2011. The Company should exclude potential common stock in the diluted EPS computation in periods of losses from continuing operations, as their effect would be anti-dilutive.

The following table summarizes the adjustments made to the previously reported consolidated statement of operations and comprehensive income (loss) for the three and six months ended June 30, 2011, and consolidated statement of cash flows for the six months ended June 30, 2011.

Selected consolidated statement of operations and comprehensive income (loss) information for the three and six months ended June 30, 2011:

	Three months ended June 30, 2011		Six months ended June 3		30, 2011	
	As previously reported	Corrections	As corrected	As previously reported	Corrections	As corrected
Research and development costs	(873,383)	-	(873,383)	(1,508,461)	30,033	(1,478,428)
Selling and distribution costs	(980,663)	-	(980,663)	(2,166,813)	11,465	(2,155,348)
General and administrative costs, including						
stock-based compensation	(2,098,497)	-	(2,098,497)	(4,163,837)	(41,498)	(4,205,335)
Gain (loss) on derivative instruments	(244,013)	400,393	156,380	(694,604)	460,408	(234,196)
Income from operations	269,507	400,393	669,900	(242,000)	460,408	218,408
Other income	176,222	(110,103)	66,119	408,770	(190,515)	218,255
Interest expense	(233,677)	63,086	(170,591)	(386,314)	126,172	(260,142)
Other expense	-	-	-	(23,964)	23,964	-
Income before taxes	212,052	353,376	565,428	(243,508)	420,029	176,521
Net Income	75,035	353,376	428,411	(386,286)	420,029	33,743
	75,055	333,370	120,111	(300,200)	120,029	33,713
Other community income (loss)						
Other comprehensive income (loss) - Loss(Income) on cash flow hedge	200,200	(200, 200)		202.057	(202.057)	
Loss(meone) on easi flow neage	290,290	(290,290)		293,857	(293,857)	
Comprehensive income	368,340	63,086	431,426	(108,197)	126,172	17,975
Weighted average number of common stock						
outstanding - Diluted	13,817,981	(235,320)	13,582,661	13,817,981	(235,403)	13,582,578

3. Correction of previously issued consolidated financial statements (continued)

Selected consolidated statement of cash flow information for the six months ended June 30, 2011:

	Six months ended June 30, 2011		
	As previously reported	Corrections	As corrected
Cash flows from operating activities			
Net (loss) income	(386,286)	420,029	33,743
Adjustments to reconcile net income to net cash provided by operating activities:			
Allowance for doubtful accounts	-	61,026	61,026
Equity gain in an associate	-	3,971	3,971
Bad debt write off	56,821	(56,821)	-
Gain on derivative instruments	694,604	(460,408)	234,196
Changes in operating assets and liabilities			
Prepayments	(3,878,708)	(11,223)	(3,889,931)
Other receivables	-	11,223	11,223
Inventories	946,233	(46,705)	899,528
Net cash flows provided by operating activities	(5,592,176)	(78,908)	(5,671,084)
Cash flows from financing activities			
Proceeds from bank borrowings	12,595,292	(5,508,490)	7,086,802
Proceeds from notes payable	8,161,654	10,225,663	18,387,317
Repayment of notes payable	-	(10,225,663)	(10,225,663)
Proceeds from letter of credit	-	5,508,490	5,508,490
Effect of foreign currency translation on cash and cash equivalents	387,639	78,908	466,547

4. Accounts receivable, net

As of June 30, 2012 and December 31, 2011, accounts receivable include the following:

	June 30, 2012	December 31, 2011
	(Unaudited)	\$
Accounts receivable Less: allowance for doubtful debts	26,333,600 579,894	21,520,763 391,345
	25,753,706	21,129,418

The Company experienced bad debt expenses of \$282,127 and \$61,026, respectively, during the six months ended June 30, 2012 and 2011, and \$261,909 and \$55,804, respectively, during the three months ended June 30, 2012 and 2011.

The Company wrote off \$91,295 and \$56,821, respectively, in accounts receivable in the six months ended June 30, 2012 and 2011.

5. Prepayments

	June 30, 2012	December 31, 2011
	(Unaudited) \$	\$
Purchase deposits paid	1,653,566	2,718,685
Advance to staff	146,868	48,678
Other deposits and prepayments	795,344	871,679
Valued-added tax prepayment	1,042,711	612,681
	3,638,489	4,251,723

6. Other receivables

	June 30, 2012 (Unaudited) \$	December 31, 2011
Deposit for land use right	497,704	755,354
Other receivable	291,430	286,260
	789,134	1,041,614

7. Inventories

	June 30, 2012	December 31, 2011	
	(Unaudited) \$	\$	
Raw materials	4,364,271	4,508,201	
Work in progress	1,886,424	900,440	
Finished goods	9,960,920	7,923,101	
Packing materials	11,728	15,581	
Consumables	145,236	165,619	
	16,368,579	13,512,942	

Where there is evidence that the utility of inventories, in their disposal in the ordinary course of business, will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels, or other causes, the inventories are written down to their fair value for the difference with charges to cost of sales. \$462,263 and \$523,921 was written down for inventories as of June 30, 2012 and December 31, 2011, respectively.

8. Property, plant and equipment, net

	June 30, 2012	December 31, 2011
	(Unaudited)	
	<i>\$</i>	<i>\$</i>
Cost		
Construction in progress	17,321,808	14,016,485
Furniture, fixtures and office equipment	2,868,040	2,734,321
Leasehold improvement	97,539	98,305
Machinery and equipment	14,067,257	13,429,090
Motor vehicles	1,228,547	1,225,948
Building	266,624	268,717
	35,849,815	31,772,866
Less: accumulated depreciation	6,870,377	6,310,210
	28,979,438	25,462,656

The Company recorded depreciation expenses of \$931,714 and \$825,008 for the six months ended June 30, 2012 and 2011, respectively, and \$470,414 and \$409,043 for the three months ended June 30, 2012 and 2011, respectively.

The capitalized interest recognized in construction in progress was \$742,923 and \$492,716 as of June 30, 2012 and December 31, 2011, respectively.

No property, plant and equipment were pledged as collateral for bank loans as of June 30, 2012 and December 31, 2011.

9. Land use right, net

	June 30, 2012	December 31, 2011
	(Unaudited)	\$
Cost		
Land located in Huizhou	3,378,872	3,405,396
Land located in Ganzhou	1,318,164	
	4,697,036	3,405,396
Accumulated amortization	(312,886)	(272,431)
	4,384,150	3,132,965

As of June 30, 2012, land use rights of the Company included certain parcels of land located in Huizhou City, Guangdong Province, the P.R.C. and Ganzhou City, Jiangxi Province, the P.R.C., with a total net carrying value of \$4,384,150. The land use rights for land with area of approximately 126,605 square meters and 58,669 square meters which will expire on May 23, 2057 and January 4, 2062, respectively.

The land use rights are being amortized annually using the straight-line method over the contract terms of 50 years. The Company recorded amortization expenses of \$42,830 and \$39,646 for the six months ended June 30, 2012 and 2011, respectively, and \$23,144 and \$16,828 for the three months ended June 30, 2012 and 2011, respectively.

The land use right for land located in Huizhou City was pledged as collateral for bank loans as of June 30, 2012 and December 31, 2011.

10. Intangible asset, net

	June 30, 2012	December 31, 2011
	(Unaudited)	
	\$	\$
Cost		
Consumer battery license fee	1,000,000	1,000,000
Accumulated amortization	(275,000)	(250,000)
	725,000	750,000

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 over the estimated 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 expenses included in selling and distribution costs for the six months ended June 30, 2012 and 2011 was \$25,000 and \$25,000 for the three months ended June 30, 2012 and 2011.

11. Other payables and accrued liabilities

	June 30, 2012	December 31, 2011
	(Unaudited) \$	\$
Accrued expenses	2,756,255	4,348,657
Royalty payable	925,089	877,905
Sales deposits received	1,676,010	1,196,711
Other payables	3,003,899	517,790
	8,361,253	6,941,063

12. Taxation

The Company and its subsidiaries file tax returns separately.

1) Value added tax ("VAT")

Pursuant to the Provisional Regulation of the P.R.C. on VAT and the related implementing rules, all entities and individuals ("taxpayers") that are engaged in the sale of products in the P.R.C. are generally required to pay VAT at a rate of 17% of the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayers. Further, when exporting goods, the exporter is entitled to a portion of or all the refund of VAT that it has already paid or incurred. The Company's P.R.C. subsidiaries are subject to VAT at 17% of their revenues.

2) Income tax

United States

Highpower was incorporated in Delaware and is subject to U.S. federal income tax with a system of graduated tax rates ranging from 15% to 35%. As Highpower does not conduct any business in the U.S. or Delaware, it is not subject to U.S. and Delaware state corporate income tax. No deferred U.S. taxes are recorded since all accumulated profits in the P.R.C. will be permanently reinvested in the P.R.C.

Hong Kong

HKHTC incorporated in Hong Kong, is subject to a corporate income tax rate of 16.5%.

P.R.C.

In accordance with the relevant tax laws and regulations of the P.R.C., a company registered in the P.R.C. is subject to income taxes within the P.R.C. at the applicable tax rate on the taxable income.

SZ Highpower has obtained the approval and is qualified as a New and High-Tech Enterprise ("NHTE") by the Shenzhen Tax Bureau, and according to the P.R.C. Enterprise Income Tax Law, it is eligible to enjoy a preferential tax rate of 15% for the calendar years of 2012 and 2011. All the other P.R.C. subsidiaries are not entitled to any tax holiday. They were subject to income tax at a rate of 25% for calendar years 2012 and 2011.

12. Taxation (continued)

The components of the provision for income taxes are:

	Three months ended June 30,				
	2012 2011		2012	2011	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	\$	\$	\$	\$	
Current	213,774	137,017	309,622	142,778	
Deferred	149,167	_	106,644	<u>-</u>	
Total	362,941	137,017	416,266	142,778	

The reconciliation of income taxes expenses computed at the statutory tax rate applicable to the Company is as follows:

	Three months ended June 30,		Six montl June	
	2012 2011 (Unaudited) (Unaudited)		2012 (Unaudited)	2011 (Unaudited)
	<i>\$</i>	\$	<i>\$</i>	<i>\$</i>
(Loss) income before tax	837,632	565,428	872,648	176,521
Provision for income taxes at				
applicable income tax rate	259,430	105,191	234,102	(52,536)
Effect of preferential tax rate	(109,868)	(98,185)	(173,445)	(88,831)
Non-deductible expenses	966	329,328	112,777	342,013
Change in valuation allowance	212,413	(199,317)	242,832	(57,868)
Effective enterprise income tax	362,941	137,017	416,266	142,778

3) Deferred tax assets

Deferred tax assets and deferred tax liabilities reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the tax bases used for income tax purpose. The following represents the tax effect of each major type of temporary difference.

	June 30,	December 31,
	2012	2011
	(Unaudited)	
	\$	\$
Tax loss carry-forward	442,409	591,542
Allowance for doubtful receivables	71,144	85,400
Allowance for inventory obsolescence	115,566	134,248
Fair value change of currency forwards	288	(19,415)
Difference for sales cut-off	115,921	65,434
	745,328	857,209

13. Notes payable

Notes payable are presented to certain suppliers as a payment against the outstanding trade payables. These notes payable are bank guarantee promissory notes which are non-interest bearing and generally mature within six months. The outstanding bank guarantee promissory notes are secured by restricted cash deposited in banks. Outstanding notes payable were \$20,801,187 and \$17,909,843 as of June 30, 2012 and December 31, 2011, respectively.

14. Short-term loans

	June 30, 2012	December 31, 2011
	(Unaudited)	
	\$	\$
Guaranteed and repayable within one year Short- term bank loans	14,179,842	9,545,383

As of June 30, 2012, the above bank borrowings were for working capital purposes and were guaranteed by personal guarantees executed by certain directors of the Company and a land use right with carrying amount \$3,074,773 pledged as collateral.

The loans were primarily obtained for general working capital, carried interest rates ranging from 3.21% to 7.55% per annum.

15. Long-term loans

	June 30, 2012 (Unaudited) \$	December 31, 2011
Secured and repayable over one year Long- term bank loans	7,867,697	

As of June 30, 2012, the above bank borrowings were for working capital purposes and were guaranteed by personal guarantees executed by certain directors of the Company. The loans summarized in below table were five-year long-term loans, with interest rate of 7.59% per annum with interest payable quarterly.

<u>Lender</u>	Amount	Annual rate	Date of Start	Repayment date
	\$		_	
Bank of China	1,573,539	7.590%	2012-1-21	2017-1-21
Bank of China	3,147,079	7.590%	2012-2-15	2017-2-15
Bank of China	3,147,079	7.590%	2012-3-28	2017-3-28
	7,867,697			

16. Share-based compensation expenses

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: (i) subject to outstanding awards granted under the Company's prior equity compensation plans that terminate without delivery of any stock (to the extent such shares would have been available for issuance under such prior plan), and (ii) subject to awards assumed or substituted in connection with the acquisition of another company.

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 contractual term of ten years and generally vest over four to five years with an exercise price equal to the fair value on the date of grant. Incentive stock options (ISOs) granted must have an exercise price equal to the fair market value on the date of grant. Repricing of stock options and SARs is prohibited without stockholder approval. 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. At June 30, 2012, approximately 1,303,000 shares of our common stock remained available for issuance under the 2008 Plan.

Share-based compensation related to employees

	Number of Share	Weighted Average Exercise Price	Contractual Term in Years
Outstanding, January 1,2012	630,000	\$ 3.04	
Granted	100,000	\$ 1.15	
Exercised	-	_	
Forfeited	(65,000)	\$ 2.51	
Outstanding, June 30, 2012	665,000	\$ 2.81	8.86
Exercisable, June 30, 2012	120,000	\$ 3.48	8.58

16. Share-based compensation expenses (continued)

Share-based compensation related to employees (continued)

During the six months ended June 30, 2012 the Company granted 100,000 shares to one employee at an exercise price of \$1.15 per share. During the six months ended June 30, 2012, a total of 65,000 options were forfeited in accordance with the terms and conditions of the 2008 Plan.

There were no options granted to employees during the three months ended June 30, 2012. The weighted-average fair value of options granted to employees for the six month periods ended June 30, 2012 and 2011 were \$0.74 per share and \$1.52 per share, respectively, were calculated using the Black-Scholes pricing model, with the following weighted-average assumptions:

	Three months ended June 30,		Six months ended June 30,		
	2012	2011	2012	2011	
Expected volatility	-	40.35%	71.78%	40.01%	
Risk-free interest rate	-	2.06%	1.09%	2.47%	
Expected term from grant date (in years)	-	6.00	6.25	6.16	
Dividend rate	-	-	-	-	
Forfeiture rate	-	-	9.78%	3.51%	
Fair value	- 9	\$ 0.75	\$ 0.74	\$ 1.52	

The estimated fair value of share-based compensation to employees is recognized as a charge against income on a ratable basis over the requisite service period, which is generally the vesting period of the award.

Share-based compensation related to nonemployees

	Number of Share	Exercise Price	Contractual Term Years
Outstanding, January 1, 2012	15,000	\$ 3.41	
Granted Exercised	-	-	
Forfeited			
Outstanding, June 30, 2012	15,000	\$ 3.41	8.67
Exercisable, June 30, 2012	3,000	\$ 3.41	8.67

16. Share-based compensation expenses (continued)

Share-based compensation related to nonemployees (continued)

The measurement date for nonemployee options is the earlier of the date that a performance commitment is reached or the date at which performance is complete. The Company considers that the measurement date is the date the performance is complete (the vesting date of the shares covered by the option). The stock-based compensation cost of options granted to nonemployees is initially measured on the grant date using the Black-Scholes model and is remeasured over the vesting period as earned. The resulting value is recognized as an expense over the period in which services are received.

During the six months ended June 30, 2011, the Company granted options to purchase 15,000 shares of common stock to a consultant at a per share exercise price of \$3.41, in exchange for services from the consultant. The Company granted no options to nonemployees during the six months ended June 30, 2012.

The grant date fair values of stock options granted to nonemployees were calculated using the Black-Scholes pricing model with the following weighted-average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Expected volatility			-	39.45%
Risk-free interest rate	-	-	-	2.53%
Expected term from grant date (in years)	-	-	-	6.50
Dividend rate	-	-	-	-
Fair value	-	-	-	\$ 1.22

Total share-based payment expenses

No share-based compensation expense was capitalized in the periods presented. At June 30, 2012, the gross amount of unrecognized share-based compensation expense relating to unvested share-based awards held by employees was approximately \$0.5 million, which the Company anticipates recognizing as a charge against income over a weighted average period of 2.58 years. At June 30, 2012, options to purchase 12,000 held by nonemployees were unvested and subject to remeasurement.

In connection with the grant of stock options to employees and nonemployees, the Company recorded share-based compensation charges of \$51,831 and \$261, respectively, for the three month period ended June 30, 2012 and stock-based compensation charges of \$48,708 and \$(148), respectively, for the three-month period ended June 30, 2011. The Company recorded share-based compensation charges of \$92,632 and \$533, respectively, for the six-month period ended June 30, 2012 and stock-based compensation charges of \$276,419 and \$761, respectively, for the six-month period ended June 30, 2011.

16. Share-based compensation expenses (continued)

Expected Term

The expected term of stock options represents the weighted-average period that the stock options are expected to remain outstanding. There have been no stock option exercises to date upon which to base an estimate of the expected term. The Company determined it appropriate to estimate the expected term using the "simplified" method as prescribed by the Securities and Exchange Commission, or SEC, in Staff Accounting Bulletin No. 107, or SAB 107, as amended by SAB 110. The simplified method determines an expected term based on the average of the weighted average vesting term and the contractual term of the option.

Expected Volatility

The Company has limited stock trading history and it is not able to reasonably estimate the fair value of its equity share options because it is not practicable for it to estimate the expected volatility of its share price. The expected volatilities used for the three and six month periods ended June 30, 2012 and 2011 are based upon the volatilities of a peer group of comparable publicly traded companies. This peer group was selected by the Company using criteria including similar industry, similar stage of development and comparable market capitalization.

Risk-Free Interest Rate

The risk-free interest rate assumption is based on U.S. Treasury instruments with a term consistent with the expected term of the Company's stock options.

Dividend Yield

The Company has never declared or paid any cash dividends and does not plan to pay cash dividends in the foreseeable future, and therefore, used an expected dividend yield of zero in the valuation model.

Forfeitures

The Company estimates forfeitures at the time of grant and revises the estimates in subsequent periods if actual forfeitures differ from what was estimated. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized on a ratable basis over the requisite service periods of the awards, which are generally the vesting periods. The Company records stock-based compensation expense only for those awards that are expected to vest.

17. Earnings per share

Basic earnings per common share are computed by dividing income available to common stockholders by the weighted-averages number of shares of common stock outstanding during the period. Diluted earnings per common share is computed by dividing income available to common stockholders 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, warrants and restricted shares. The dilutive effect of potential dilutive securities is reflected in diluted earnings 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 Company excludes potential common stocks in the diluted EPS computation in periods of losses from continuing operations, as their effect would be anti-dilutive.

The following tables set forth the computation of basic and diluted earnings per common share for the six months ended June 30, 2012 and 2011, and the three months ended June 30, 2012 and 2011.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Numerator:				
Net income attributable to the Company	503,714	428,411	506,899	33,743
Denominator:				
Weighted-average shares outstanding	13,582,106	13,582,106	13,582,106	13,582,106
Effect of dilutive securities	-	555	-	472
Denominator:				
Weighted-average shares diluted	13,582,106	13,582,661	13,582,106	13,582,578
Basic earnings per common share attributable to the Company	0.04	0.03	0.04	-
Diluted earnings per common share attributable to the Company	0.04	0.03	0.04	_

Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. Stock options totaled 680,000 shares that could potentially dilute earnings per share in the future which were not included in the fully diluted computation for the current period because they would have been anti-dilutive since the stock's average market price did not exceed the exercise price. Warrants totaled 47,500 shares that could potentially dilute earnings per share which were not included in the fully diluted computation for the current period, since the stock's average market price did not exceed the exercise price.

18. Share warrants

On September 19, 2008, the Company issued to WestPark Capital 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 September 19, 2008, the issuance date, is \$276,000. All warrants were evaluated for liability treatment and were determined to be equity instruments.

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 June 30, 2012, warrants to purchase 47,500 shares of common stock were still outstanding.

19. Defined contribution plan

Full-time employees of the Company in the P.R.C. participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the P.R.C. operating subsidiaries of the Company make contributions to the government for these benefits based on certain percentages of the employees' salaries. Except for pension benefits, medical care, employee housing fund and other welfare benefits mentioned above, the Company has no legal obligation for the benefits beyond the contributions made.

The total amounts for such employee benefits, which were expensed as incurred, were \$507,397 and \$402,316 for the six months ended June 30, 2012 and 2011, respectively, and \$281,355 and \$227,011 for the three months ended June 30, 2012 and 2011, respectively.

20. 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 2012 to 2016, with an option to renew the lease. All leases are on a fixed repayment basis. None of the leases includes contingent rentals. Minimum future commitments under these agreements payable as of June 30, 2012 are as follows:

	\$
2012	576,679
2013	589,855
2014	306,727
2015	294,929
2016	294,929
	2,063,119

Rent expenses for the six months ended June 30, 2012 and 2011 were \$618,849 and \$542,219, respectively, for the three months ended June 30, 2012 and 2011, rent expenses were \$308,603 and \$288,080, respectively.

Capital commitments and contingencies

The Company had contracted capital commitments of \$2,010,634 for the construction of Ganzhou plant as of June 30, 2012, and \$1,755,387 for the construction of the Huizhou plant as of December 31, 2011.

21. 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.

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

	Three months	Three months ended June 30,		ended June 30,
	2012 2011		2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$	\$	\$	<i>\$</i>
Net revenue				
Hong Kong and China	14,772,662	16,558,325	27,592,60	2 33,292,799
Asia	2,345,866	1,852,180	3,464,94	6 3,327,630
Europe	7,459,918	7,148,067	11,806,37	8 13,617,347
North America	4,719,437	4,114,324	7,016,24	0 6,309,050
South America	-	(2,363)		- 29,883
Africa	27,690	-	48,19	0 -
Others	52,109	37,621	52,10	9 82,111
	29,377,682	29,708,154	49,980,46	56,658,820
		•	,	ember 31,
			012	2011
		(Una	udited)	
			\$	\$
Accounts receivable				
Hong Kong and China		13,3	868,767 1	4,359,354
Asia		1,4	68,229	740,289
Europe		8,3	884,059	4,973,601
North America		2,5	32,651	1,036,100
South America			-	18,950
Africa				1,124
		25,7	253,706 2	21,129,418

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion relates to the financial condition and results of operations of Highpower International, Inc. (the "Company") and its wholly-owned subsidiary Hong Kong Highpower Technology Company Limited (referred to herein as "HKHTC"), and HKHTC's wholly-owned subsidiaries Shenzhen Highpower Technology Company Limited ("SZ Highpower"), Springpower Technology (Shenzhen) Company Limited ("SZ Springpower"), Icon Energy System Company Limited ("ICON") and Huizhou Energy Technology (Huizhou) Co. ("HZ Highpower") which has not yet commenced operations. SZ Highpower's 60%-owned subsidiary, Ganzhou Highpower Technology Company Limited ("GZ Highpower"), and its other wholly-owned subsidiary, Huizhou Highpower Technology Company Limited ("HZ HTC"), which was founded on March 8, 2012, is scheduled to commence operations in August 2012.

Forward-Looking Statements

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes that are included in this Quarterly Report and the audited consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for the year ended December 31, 2011 (the "Annual Report").

This Quarterly Report contains forward-looking statements that involve substantial risks and uncertainties. All statements other than historical facts contained in this report, including statements regarding our future financial position, results of operations, cash flows, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "anticipates," "believes," "expects, "plans," "intends," "seeks," "estimates," "projects," "predicts" "could," "should" "would" "will" "may," "might", and similar expressions, or the negative of such expressions, are intended to identify forward-looking statements. Such statements reflect our management's current views with respect to future events and financial performance and involve risks and uncertainties, including, without limitation, the current economic downturn adversely affecting demand for our products; fluctuations in the cost of raw materials; our dependence on, or inability to attract additional, major customers for a significant portion of our net sales; our ability to increase manufacturing capabilities to satisfy orders from new customers; changes in the laws of the P.R.C. that affect our operations; our ability to complete construction at our new manufacturing facility on time; our ability to control operating expenses and costs related to the construction of our new manufacturing facility; the devaluation of the U.S. Dollar relative to the Renminbi; our dependence on the growth in demand for portable electronic devices and the success of manufacturers of the end applications that use our battery products; our responsiveness to competitive market conditions; our ability to successfully manufacture lithium batteries in the time frame and amounts expected; the market acceptance of our lithium products; changes in foreign, political, social, business and economic conditions that affect our production capabilities or demand for our products; and various other matters, many of which are beyond our control. Actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated should one or more of these risks or uncertainties occur or if any of the risks or uncertainties described in elsewhere in this report or in the "Risk Factors" section of our Annual Report occur. Consequently, all of the forward-looking statements made in this filing are qualified by these cautionary statements and there can be no assurance of the actual results or developments.

Overview

Highpower was incorporated in the state of Delaware on January 3, 2006 and 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 HKHTC and its wholly-owned subsidiary, SZ Highpower, (ii) assumed the operations of HKHTC and its subsidiary and (iii) changed our name from Highpower Technology, Inc. to Highpower International, Inc. on October 20, 2010.

HKHTC was incorporated in Hong Kong in 2003, under the Companies Ordinance of Hong Kong. HKHTC formed HZ Highpower and SZ Springpower in 2008. HZ Highpower has not yet commenced business operations as of August 9, 2012. HKHTC formed another whollyowned subsidiary, Icon Energy System Company Limited., a company organized under the laws of the P.R.C., in February 2011, and it commenced operations in July 2011.

SZ Highpower was founded in 2001 in the P.R.C. SZ Highpower formed a subsidiary, GZ Highpower, which commenced business operations in September 2010. On February 8, 2012, GZ Highpower increased its registered capital from RMB2,000,000 (\$293,574) to RMB30,000,000 (\$4,762,586). SZ Highpower holds 60% of the equity interest of GZ Highpower and four other founding management members hold the remaining 40%. In March 8, 2012, SZ Highpower founded another wholly-owned subsidiary, Huizhou Highpower Technology Company Limited, under the P.R.C. laws. HZ HTC engages in the manufacture of batteries.

Through SZ Highpower, we manufacture Nickel Metal Hydride ("Ni-MH") 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 two lines of Lithium-Ion ("Li-ion") and Lithium polymer rechargeable batteries through SZ 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 sales staff 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.

In 2010, we began a new materials business in which we buy and resell certain raw materials related to our battery manufacturing operations. This new materials business generates revenue and income and helps us understand our raw material supply chain, control our raw material costs and ensure that we have a steady supply of raw materials for our battery manufacturing operations to reduce our reliance on external suppliers.

Critical Accounting Policies and Estimates

The Securities and Exchange Commission ("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 U.S. GAAP.

Use of Estimates. The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include revenues; the allowance for doubtful receivables; recoverability of the carrying amount of inventory; fair values of financial instruments; and the assessment of deferred tax assets or liabilities. These estimates are often based on complex judgments and assumptions that management believes to be reasonable but are inherently uncertain and unpredictable. Actual results could differ from these 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 in accordance with ASC Topic 605. All of the following criteria must exist in order for the Company to recognize revenue: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) price to the buyer is fixed or determinable; and (4) collectability is reasonably assured.

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

Inventories. Inventories are stated at the lower of cost or market value. Costs are determined on a weighted-average method. Inventories include raw materials, packing materials, work-in-process, consumables and finished goods. The variable production overhead is allocated to each unit of production on the basis of the actual use of the production facilities. The allocation of fixed production overhead to the costs of conversion is based on the normal capacity of the production facilities. While there is evidence that the utility of inventories, in their disposal in the ordinary course of business, will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels, or other causes, the inventories are written down to their fair value for the difference with charges to cost of sales.

Income Taxes. The Company recognizes deferred assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Foreign Currency Translation and Transactions. Highpower's functional currency is the United States dollar ("US\$"). HKHTC's functional currency is the Hong Kong dollar ("HK\$"). The functional currency of the Company's subsidiaries in the P.R.C. is the Renminbi ("RMB").

At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction is measured initially in the functional currency of the recording entity by use of the exchange rate in effect at that date. The increase or decrease in expected functional currency cash flows upon settlement of a transaction resulting from a change in exchange rates between the functional currency and the currency in which the transaction is denominated is recognized as foreign currency transaction gain or loss that is included in determining net income for the period in which the exchange rate changes. At each balance sheet date, recorded balances that are denominated in a foreign currency are adjusted to reflect the current exchange rate.

The Company's reporting currency is US\$. Assets and liabilities of HKHTC and the P.R.C. subsidiaries are translated at the current exchange rate at the balance sheet dates, revenues and expenses are translated at the average exchange rates during the reporting periods, and equity accounts are translated at historical rates. Translation adjustments are reported in other comprehensive income.

Results of Operations

Three Months Ended June 30, 2012 and 2011

Net sales for the three months ended June 30, 2012 were \$29.4 million compared to \$29.7 million for the three months ended June 30, 2011, a decrease of 1.1%. The net decrease of \$0.3 million was primarily due to a \$5.4 million decrease in revenue from our New Materials business, which was partially offset by an increase of \$3.4 million in revenue from our lithium batteries sold and an increase of \$1.7 million in revenue from our Ni-MH batteries sold. Revenues from our New Materials business dropped to \$408,579 for the three months ended June 30, 2012 from \$5.8 million for the three months ended June 30, 2011, a decrease of 92.9%. The decrease in new materials business is due to strategic shift to full scale battery and e-waste recycling business. In addition, revenue from our lithium batteries sold and our Ni-MH batteries sold increased 55.6% and 9.7%, respectively. The increase in lithium batteries business is due to a 28.8% increase in the volume of batteries sold and a 20.8% increase in the average selling price resulting from our sale of higher quality and higher capacity battery products,. The increase in Ni-MH batteries business is due to a 15.7% increase in the volume of Ni-MH battery units sold , which was partly offset a 5.2% decrease in the average selling price of Ni-MH battery units sold.

Cost of sales consists of the cost of direct materials, direct labor and overhead allocated. Costs of sales were \$23.4 million for the three months ended June 30, 2012, as compared to \$24.9 million for the same period in 2011. As a percentage of net sales, cost of sales decreased to 79.5% for the three months ended June 30, 2012 compared to 84% for the same period in 2011. This decrease was attributable to decreases of raw material prices including a 29.4% decrease in the average price of nickel units, from the comparable period in 2011.

Gross profit for the three months ended June 30, 2012 was \$6.0 million, or 20.5% of net sales, compared to \$4.8 million, or 16.0% of net sales, for the same period in 2011. Management considers gross profit margin 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 three months ended June 30, 2012 was primarily due to a 5.0% decrease in the average unit cost of our Ni-MH batteries and an 8.2% decrease in the average unit cost of our lithium batteries sold. In addition, revenue from our New Materials business decreased to \$408,579 for the three months ended June 30, 2012 from \$5.8 million for the three months ended June 30, 2011, which business has lower gross profit margins than our other business operations.

To cope with pressure on our gross margins we intend to control production costs by entering into long term contracts to lock in the raw material prices at the appropriate timing. 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. and Europe, and by expanding our sales team with more experienced international sales personnel. We have also begun production capacity expansion for our lithium batteries business to take advantage of the strong demand globally.

Research and development expenses were approximately \$1.2 million, or 4.2% of net sales for the three months ended June 30, 2012 as compared to approximately \$873,383 or 2.9% of net sales for the comparable period in 2011, an increase of 41.2%. The increase was due to the expansion of our workforce to expand our research and development and management functions.

Selling and distribution costs were \$1.3 million, or 4.4% of net sales, for the three months ended June 30, 2012 compared to \$980,663, or 3.3% of net sales, for the same period in 2011. The percentage increase was mainly due to the expansion of our sales team with more experienced international sales personnel.

General and administrative costs were \$2.3 million, or 7.7% of net sales, for the three months ended June 30, 2012, compared to \$2.1 million, or 7.1% of net sales, for the same period in 2011. The slight increase was due to an increase in labor costs.

We experienced (loss) gain on the exchange rate difference between the U.S. Dollar and the RMB of approximately \$153,360 and \$(298,000), respectively, in the three months ended June 30, 2012 and 2011. The difference on exchange rate gain (loss) was due to the appreciation of the U.S. Dollar relative to the RMB over the respective periods.

We experienced a loss on derivative instruments of approximately \$304,147 in the three months ended June 30, 2012, which included a gain of \$13,345 on settled currency forwards and a loss of \$317,492 on unsettled currency forwards, as compared to a gain of \$156,380 for the comparable period in 2011, which included a loss of \$244,013 on the forward contract of nickel, a gain of \$110,103 on settled currency forwards and a gain of \$290,290 on unsettled currency forwards which was previously presented in other comprehensive income under cash flow hedge in 2011. The correction resulted in a reduction of \$290,290 for the net income for the three months ended June 30, 2011.

Interest expense was approximately \$301,123 for the three months ended June 30, 2012, as compared to approximately \$170,591 of interest expense for the same period in 2011. The fluctuation was primarily due to a \$121,653 increase in interest expense related to bank borrowings from \$233,677 for the three months ended June 30, 2011 to \$355,330 for the same period of 2012, resulting from higher borrowing levels and interest rates. We increased borrowings under our long-term loan to approximately \$7.9 million for the three months ended June 30, 2012 as compared to zero for the three months ended June 30, 2011. The increase in interest expense was also due to an \$8,879 decrease in capitalized interest expenses from \$63,086 for the three months ended June 30, 2011 to \$54,207 for the three months ended June 30, 2012. The decrease in capitalized interest expenses was due to an increase in payments for the construction of the Huizhou facilities. Further increases in borrowing rates would further increase our interest expense, which would have a negative effect on our results of operations.

Other income, which consists of bank interest income, government grants and sundry income, was approximately \$61,185 for the three months ended June 30, 2012, as compared to approximately \$66,119 for the three months ended June 30, 2011, a decrease of \$4,934. The slight decrease was due to a decrease in bank interest income.

During the three months ended June 30, 2012, we recorded a provision for income tax expense of \$362,941, as compared to income tax expense of \$137,017 for the same period in 2011. The increase was due to the increased income before taxes during this period.

Net income attributable to the Company for the three months ended June 30, 2012 was \$503,714 compared to net income attributable to the Company of \$428,411 for the same period in 2011.

Six Months Ended June 30, 2012 and 2011

Net sales for the six months ended June 30, 2012 were \$50.0 million compared to \$56.7 million for the six months ended June 30, 2011, a decrease of 11.8%. The net decrease of \$6.7 million was primarily due to a \$12.0 million decrease in revenue from our New Materials business, which was partially offset by an increase of \$4.9 million in revenue from our lithium batteries sold and increase of \$406,959 in revenue from our Ni-MH batteries sold. Revenues from our New Materials business dropped to \$733,572 for the six months ended June 30, 2012 from \$12.7 million for the six months ended June 30, 2011, a decrease of 94.2%. The decrease in new materials business is due to strategic shift to full scale battery and e-waste recycling business. In addition, revenue from our lithium batteries sold and our Ni-MH batteries sold increased 49.6% and 1.2%, respectively. The increase in lithium batteries business is due to a 29.0% increase in the volume of batteries sold and a 16.0% increase in the average selling price resulting from our sale of higher quality and higher capacity battery products, The increase in Ni-MH batteries business is due to a 1.5% increase in the volume of Ni-MH battery units sold, which was partly offset by a 0.3% decrease in the average selling price of Ni-MH battery units sold.

Cost of sales consists of the cost of direct materials, direct labor and overhead allocated. Costs of sales were \$40.3 million for the six months ended June 30, 2012, as compared to \$47.9 million for the same period in 2011. As a percentage of net sales, cost of sales decreased to 80.6% for the six months ended June 30, 2012 compared to 84.5% for the same period in 2011. This decrease was attributable to decreases of raw material prices including a 28.1% decrease in the average price of nickel units, from the comparable period in 2011.

Gross profit for the six months ended June 30, 2012 was \$9.7 million, or 19.4% of net sales, compared to \$8.8 million, or 15.5% net sales, for the same period in 2011. Management considers gross profit margin 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 six months ended June 30, 2012 was primarily due to a 4.2% decrease in the average unit cost of our lithium batteries sold. In addition, revenue from our New Materials business decreased to \$703,874 for the six months ended June 30, 2012 from \$12.5 million for the six months ended June 30, 2011, which business has lower gross profit margins than our other business operations.

To cope with pressure on our gross margins we intend to control production costs by entering into long term contracts to lock in raw material prices at the appropriate timing. 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. and Europe, and by expanding our sales team with more experienced international sales personnel. We have also begun production capacity expansion for our lithium batteries business to take advantage of the strong demand globally.

Research and development expenses were approximately \$2.1 million, or 4.2% of net sales for the six months ended June 30, 2012 as compared to approximately \$1.5 million, or 2.6% of net sales for the comparable period in 2011, an increase of 43.3%. The increase was due to the expansion of our workforce to expand our research and development and management functions.

Selling and distribution costs were \$2.5 million, or 5.0% of net sales, for the six months ended June 30, 2012 compared to \$2.2 million, or 3.8% of net sales, for the same period in 2011. The percentage increase was mainly due to the expansion of our sales team with more experienced international sales personnel.

General and administrative costs were \$4.3 million, or 8.6% of net sales, for the six months ended June 30, 2012, compared to \$4.2 million, or 7.4% of net sales, for the same period in 2011. The slight increase was due to an increase in labor costs.

We experienced (loss) gain on the exchange rate difference between the U.S. Dollar and the RMB of approximately \$122,030 and \$(470,704), respectively, in the six months ended June 30, 2012 and 2011. The difference on exchange rate gain (loss) was due to the appreciation of the U.S. Dollar relative to the RMB over the respective periods.

We experienced a gain on derivative instruments of approximately \$32,956 in the six months ended June 30, 2012, which included a gain of \$64,234 on settled currency forwards and a loss of \$31,278 on unsettled currency forwards, as compared to a loss of \$234,196 for the comparable period in 2011, which included a loss of \$694,604 on the forward contract of nickel, a gain of \$166,551 on settled currency forwards and a gain of \$293,857 on unsettled currency forwards which was previously presented in other comprehensive income under cash flow hedge in 2011. The correction resulted in a reduction of \$293,857 of the net income for the six months ended June 30, 2011.

Interest expense was approximately \$313,441 for the six months ended June 30, 2012, as compared to approximately \$260,142 of interest expense for the same period in 2011. The fluctuation was due to a \$178,263 increase in interest expense related to bank borrowings from \$386,313 for the six months ended June 30, 2011 to \$564,576 for the same period of 2012, resulting from higher borrowing levels and interest rates. We increased borrowings under our long-term loan to approximately \$7.9 million for the six months ended June 30, 2012 as compared to zero for the six months ended June 30, 2011. The capitalized interest expenses increased by \$124,964 from \$126,171 for the six months ended June 30, 2011 to \$251,135 for the six months ended June 30, 2012, which would offset the increase of interest expenses. The increase in capitalized interest expenses was due to an increase in payments for the construction of the Huizhou facilities. Further increases in borrowing rates would further increase our interest expense, which would have a negative effect on our results of operations.

Other income, which consists of bank interest income, government grants and sundry income, was approximately \$228,218 for the six months ended June 30, 2012, as compared to approximately \$218,255 for the six months ended June 30, 2011, an increase of \$9,963. The increase was due to an increase in bank interest income.

During the six months ended June 30, 2012, we recorded a provision for income tax expense of \$416,266, as compared to income tax expense of \$142,778 for the same period in 2011. The increase was due to the income before taxes during this period.

Net income attributable to the Company for the six months ended June 30, 2012 was \$506,899, compared to net income attributable to the Company of \$33,743 for the same period in 2011.

Foreign Currency and Exchange Risk

Though the reporting currency is the US\$, the Company maintains its financial records in the functional currency of Renminbi ("RMB"). Substantially all of our operations are conducted in the P.R.C. and we pay the majority of our expenses in RMB. Approximately 70% of our sales are made in U.S. Dollars. During the six months ended June 30, 2012, the exchange rate of the RMB to the U.S. Dollar devalued 0.2% from the level at the end of December 31, 2011. 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 P.R.C. 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 2008 a hedging program to attempt to protect it from significant changes to the US Dollar which affects the value of its US dollar receivables and sales. As of June 30, 2012, the Company had a series of currency forwards totaling a notional amount \$30.5 million expiring from July 2012 to April 2013. The terms of these derivative contracts are generally for 24 months or less. Changes in the fair value of these derivative contracts are included in "gain (loss) of derivative instruments" for the six months ended June 30, 2012.

Liquidity and Capital Resources

We had cash and cash equivalents of approximately \$5.1 million as of June 30, 2012, as compared to \$5.2 million as of December 31, 2011. Our funds are kept in financial institutions located in the P.R.C. which do not provide insurance for amounts on deposit. Moreover, we are subject to the regulations of the P.R.C. which restrict the transfer of cash from the P.R.C., except under certain specific circumstances. Accordingly, such funds may not be readily available to us to satisfy obligations incurred outside the P.R.C.

To provide liquidity and flexibility in funding our operations, we borrow amounts under bank facilities and other external sources of financing. As of June 30, 2012, we had in place general banking facilities with seven financial institutions aggregating \$63.0 million. The maturity of these facilities is generally less than five years. The facilities are subject to regular review and approval. Certain of these banking facilities are guaranteed by our Chief Executive Officer, Mr. Dang Yu Pan and our subsidiaries, 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 June 30, 2012, we had utilized approximately \$37.6 million under such general credit facilities and had available unused credit facilities of \$25.4 million.

For the six months ended June 30, 2012, net cash provided by operating activities was approximately \$1.6 million, as compared to net cash used in operating activities of \$5.7 million for the comparable period in 2011. The net cash increase of \$7.2 million provided by operating activities is primarily attributable to, among other items, an increase of \$7.7 million in cash inflow from accounts payable, an increase of \$4.5 million in cash inflow from prepayments, an increase of \$1.4 million in cash inflow from other payable and accrued liabilities, an increase of \$1.1 million in cash inflow from income taxes payable, which was significantly offset by a decrease of approximately \$4.3 million in accounts receivable, a decrease of \$3.8 million in inventories. The cash inflow increases in accounts payable and prepayments were, to a great extent, attributable to our increasingly strict recovery policies. The cash outflow increase in inventories was mainly due to an increase in our purchases of raw materials. The cash outflow increase in accounts receivable was due to extending in days sales outstanding from 66 days to 84 days.

Net cash used in investing activities was \$9.8 million for the six months ended June 30, 2012 compared to \$2.9 million for the comparable period in 2011. The net increase of \$6.9 million cash used in investing activities was primarily attributable to an increase in the acquisition of plant and equipment for the new factory under construction in Huizhou, which we expect will be operational in August 2012. We are equipping the factory with new machines with more advanced manufacturing capabilities. In addition, we acquired 58,669 square meters land use right worth of \$1,327,923 in Ganzhou, Jiangxi province, China in February 2012.

Net cash provided by financing activities was \$8.3 million during the six months ended June 30, 2012, as compared to net cash provided by financing activities of \$7.2 million for the six months ended June 30, 2011. The increase in net cash provided by financing activities was primarily attributable to an increase of \$7.9 million in proceeds from long-term bank loans, a decrease of \$7.2 million in repayment of short-term bank loans, an increase of \$949,743 in proceeds from non-controlling interest, an increase of \$1.3 million in proceeds from notes payable and a decrease of \$6.4 million in repayment of notes payable, which was partly offset by a decrease of \$1.2 million in proceeds from short-term bank loans, a decrease of \$5.5 million in proceeds from letter of credit and a decrease of \$220,083 in restricted cash. The significant increase was mainly due to an increase in our long-term loan to fund the new factory located in Huizhou. We also utilize notes payable to meet our working capital needs. The increase in restricted cash was caused by the increase in proceeds from notes payable.

For the six months ended June 30, 2012 and 2011, our inventory turnover was 3.3 times and 4.4 times, respectively. The average days outstanding of our accounts receivable at June 30, 2012 was 84 days, as compared to 66 days at June 30, 2011. 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.

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. Total contributions to the funds were approximately \$281,355 and \$277,011 for the three months ended June 30, 2012 and 2011, respectively and \$507,397 and \$402,316 for the six months ended June 30, 2012 and 2011, respectively. 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 meet 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, work-in-process and finished goods inventory on hand to ensure timely delivery of our products to customers. We use two methods to support our working capital needs: (i) paying our suppliers under payment terms ranging from 30 to 60 days; and (ii) using short-term bank 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.

Recent Accounting Pronouncements

In December 2011, The FASB issued ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in ASU 2011-05. ASU 2011-12 defers the requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income ("AOCI") in both net income and other comprehensive income ("OCI") on the face of the financial statements. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

In July 2012, the FASB issued ASU 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." This ASU simplifies how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, early adoption is permitted. The Company will adopt this ASU beginning with its Quarterly Report on Form 10-Q for the three months ended September 30, 2012. There should be no material impact on the consolidated financial statements upon adoption.

Except for the ASUs above, in the period ended August 10, 2012, The FASB has issued ASU No. 2012-01 through ASU 2011-02, which is not expected to have a material impact on the consolidated financial statements upon adoption.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required for a smaller reporting company.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures", which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, as appropriate to allow timely decisions regarding required disclosure.

Based on an evaluation carried out as of the end of the period covered by this quarterly report, under the supervision and with the participation of our management, including our CEO and CFO, who have concluded that, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were effective as of June 30, 2012.

Changes in Internal Control over Financial Reporting

Based on the evaluation of our management as required by paragraph (d) of Rule 13a-15 of the Exchange Act, there were no changes in our internal control over financial reporting that occurred during our quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

On August 20, 2007, a lawsuit was filed against Shenzhen Highpower 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 Highpower 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.

On June 25, 2012, Shenzhen Highpower paid USD1,500,000 along with the contributions from other defendant parties involved in the case through third party mediation. Subsequently, the litigation was withdrawn. Shenzhen Highpower is indemnified from any further liabilities. Energizer continues to be one of our customers.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

None.

Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Zhuhai China Resources Bank of Co., Ltd., Shenzhen Branch

On April 28, 2012, SZ Highpower entered into a credit contract revolving line of credit in the amount of RMB40,000,000(US\$6.3 million)with Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch. The Comprehensive Credit Line is jointly guaranteed by SZ Springpower and our Chief Executive Officer, Mr. Dang Yu Pan, and expires on April 28, 2013.

The following events constitute a default under the Comprehensive Credit Line: SZ Highpower offers false information or hides true and important information to Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch, does not cooperate with the investigation, reviewing, and inspection; SZ Highpower does not accept supervision of Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch about the usage situation of the credit or involved operation and financial activities; SZ Highpower does not use the loan and/or other credit according to the Contract and the specific contract; SZ Highpower does not repay the loan, advances and other credit capital and interest timely and fully according to the Contract and the specific contract; SZ Highpower does not repay the loan, advances and other credit capital and interest of SZ Highpower in other financial institution timely and fully; SZ Highpower assigns the credit in the Contract to a third party with the agreement of Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch, or manages and demands the matured claim indifferently, or disposes of existing assets with no cost or other inappropriate method; or the occurrence of other situations Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch thinks may damage the legitimate rights of Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch, If any of the following occur and the guarantor refuses to eliminate the condition or SZ Highpower does not cooperate with the bank to remedy the situation, SZ Highpower shall be in breach of the agreement: the guarantor hides its actual ability of undertaking guarantee responsibility, or do not acquire the authorization of the competent authority; the guarantor does not apply for the annual inspection of the registration procedure on time; the guarantor manages and demands the matured claim indifferently, or disposes existing assets with no cost or other inappropriate method, If any of the following occur and a mortgagor refuses to eliminate the condition or SZ Highpower does not cooperate with the bank to remedy the situation, SZ Highpower shall be in breach: the mortgagor does not have the ownership or disposition of pledges, or the ownership is in controversy; the pledges may have situations such as leased, closed down, detained, superintended, exist legal precedent priority (including but not limited the priority of construction), and/or hid these situations; the mortgagor transfers, leases, re-pledges or disposes pledges with inappropriate method without the writing agreement of Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch, or has the writing agreement of Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch, but does not repay the loan SZ Highpower owes to Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch, using the income of disposal of pledges according to the requirements of Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch; the mortgagor does not safe keep, maintain, repair the pledges, and result in depreciation and damages on pledges; or the mortgagor's behavior endangers the pledges, result in depreciation on the pledges value; or during the mortgage period, the mortgagor insures for the pledges not according to the requirements of Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch.

If any of the events of default under the contract occur, China Resources Bank has the right to taking the following measures respectively or simultaneously: reduce line of credit in the Contract, or stop the use of the remaining credit amount; take back capital and interest and related costs of issued loans contained in the maximum line of credit in advance; during the credit period, Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch can request SZ Highpower add the amount of security, or transfer the deposits of other accounts of SZ Highpower opened in Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch to the security account for paying off the security provided by Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch in the Contract in the future, or deposit them in a third party for the security Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch to pay for SZ Highpower in advance in future; deduct any deposits on the bank accounts of SZ Highpower opened in all branches of Zhuhai China Resources Bank Co., Ltd, Shenzhen Branch and Zhuhai China Resources Bank Co., Ltd., for pay off of all debts in the Contract and specific contract; SZ Highpower; and has the right to retain the recourse under the Contract.

Loan Agreement with Wing Lung Bank Limited

On April 2, 2012, Hong Kong Highpower Technology Company Limited entered into an agreement for banking facilities with Wing Lung Bank Limited with facility limits of HKD21,000,000 (\$3.3 million), with terms of one year. The interest rate is 2.65% per annum above Hong Kong Interbank Offered Rate.

The following events constitute an event of default under the Contract: HKHTC's failure to provide any documents requested by Wing Lung Bank, including but not limited, to proof supporting the disposal of loan proceeds in accordance with the approved loan purpose, any substantial change to the general nature of the existing business, and any adverse changes affecting the company, and any difficulty in repaying or servicing outstanding interest and principal; HKHTC's failure to apply proceeds of any drawing only for the purpose as set out in this letter; HKHTC's unauthorized transfer the proceeds of any drawing to any account maintained by HKHTC or any person or corporation with any branch or office of any financial institution in the People's Republic of China; HKHTC's failure to apply proceeds of any drawing in compliance with relevant laws and regulations of Hong Kong and the People's Republic of China; HKHTC's failure to deliver certified copies of its audited accounts to Wing Lung Bank within 180 days after each financial year end, together with a certificate signed by directors in compliance with all the terms and conditions.

Item 6. Exhibits

(a) Exhibits

TrL	.:L:4
P/XII	HIDI

EXHIDIU					
Number	Description of Document				
10.1	Bank loan contract dated April 28, 2012 by and between Zhuhai China Resources Bank of Co., Ltd., Shenzhen Branch and				
10.1	Shenzhen Highpower and corresponding guarantee agreements (translated to English)				
10.2	Bank Loan contract dated April 20, 2012 by and between Wing Lung Bank and Hong Kong Highpower Technology				
	Company Limited.				
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	Certification of the 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.				
101.INS_XBRL Instance Document					
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF XBRL Taxonomy Extension Definition Linkbase Document					
	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				

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.

HIGHPOWER INTERNATIONAL, INC.

SIGNATURES

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

Highpower International, Inc.

Dated: August 16, 2012	By: Its:	/s/ Dang Yu Pan Dang Yu Pan Chairman of the Board and Chief Executive Officer (principal executive officer)
	By: Its:	/s/ Henry Sun Henry Sun Chief Financial Officer (principal financial and accounting officer)
	41	

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 quarterly report on Form 10-Q of Highpower International, 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: August 16, 2012 /s/ Dang Yu Pan

By: Dang Yu Pan
Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

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 Sun, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of Highpower International, 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: August 16, 2012
/s/ Henry Sun
Henry Sun
Chief Financial Officer
(Principal Financial Officer)

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 quarterly report of Highpower International, Inc. (the "Company") on Form 10-Q for the quarter ending June 30, 2012, 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.

/s/ Dang Yu Pan

Dang Yu Pan Chairman of the Board and Chief Executive Officer (Principal Executive Officer) August 16, 2012

/s/ Henry Sun

Henry Sun Chief Financial Officer (Principal Financial and Accounting Officer) August 16, 2012

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not filed with the Securities and Exchange Commission as part of the Form 10-Q or as a separate disclosure document and is not incorporated by reference into any filing of Highpower International, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language contained in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Comprehensive credit contract

Fiduciary: SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD. (hereinafter referred to Party A)
Credit; Zhuhai China Resources Bank Co., Ltd., SHENZHEN BRANCH (sub., sub-branches) (hereinafter referred to Party B)

Applying by Party A, Party B agrees to provide the Party A the line of credit. In accordance with the provisions of relevant laws, after full consultation, Party A and Party B reach an agreement on the following terms and conditions, hereto enter into this Contract.

Chapter 1 The maximum line of credit and detailed line of credit

Article 1 Maximum line of credit is listed below:

1. The maximum line of credit in this Contract, Party B should provide to Party A (unless other mutual agreement, the line of credit does not contain secure deposit on specific business provided by Party A or a third party, or the amount equal to the line of credit of deposit pledge guarantee provided by Party A) is: <u>RMB</u>(currency) <u>\$FORTY MILLION ONLY</u> (capital) (containing the equivalent in other currencies, the used exchange rate is the foreign exchange rate, announced by Party B, on which day the specific business actually occurred, the same below).

2. During the usage period of the line of credit, For the credit amount paid by Party A, Party B agrees to deal with according to following method, the unused line of credit during the usage period will be canceled automatically after expiration usage date.

All the credit amount can be recycled. Party A can reuse the repaid credit amount during the usage period, without exceeding the maximum line of credit.

Article 2 The detailed line of credit of specific business contained in above-mentioned maximum line of credit is listed as follows:

The specific mode of the credit amount pursuant to the specific business contract signed by both parties.

The above-mentioned credit amount can (fill in "can" or "cannot") be coordinated used by Party A, and (indicate by check mark):

☐ All types of business can use coordinated;

☑ Part types of business can use coordinated——Bankers' acceptance bills.

Chapter 2 The credit period

Article 3 The period of usage validity of the maximum line of credit is from April 28, 2012 to April 28, 2013.

The period of validity of specific business pursuant to specific business contract, but the beginning usage date of detailed line of credit in specific business should before at the expiry date of the maximum line of credit.

Chapter 3 The use of the line of credit

Article 4 During usage period of the line of credit, Party A must apply detailed line of credit one by one, and Party B should approve the applications one by one. The credit amount, usage period and specific use of each loan should be arranged in specific business contract /agreement (including the loan receipt / loan voucher) by both parties, or arranged in specific business application applied by Party A and agreed by Party B.

Article 5 For specific business, both sides should sign a specific business contract. If specific business contract is inconsistent with the provisions of the Contract, it shall comply with specific business contract.

Chapter 4 Interest and fees

Article 6 The interest of Loans, financing and the fees charged by related business in the line of credit of the Contract should be charged according to the provisions of the specific contract.

Article 7 The expenses related Credit investigation, inspection, notarization, and all fees include attorney fees, litigation costs, travel expenses, announcement fees paid for realizing the credit right by Party B on the situation Party A cannot repay the loans in the Contract on time should be all bear by Party A, and Party A authorizes Party B to deduct the fees directly from any account owned by the Party A in all the branches of Zhuhai China Resources Bank Co., Ltd.

Chapter 5 Security

Article 8 To ensure the debt right in this Contract, adopt the below security mode:

Guarantor <u>SPRINGPOWER TECHNOLOGY</u> (<u>SHENZHEN</u>) <u>CO., LTD.</u> and <u>DANGYU PAN</u>, signed "Security contract of Maximum amount" named "<u>HUA YIN 2012 SHENERBAOZI GONGSISAN 001</u>" with the Party B;

If the guarantor fails to sign security agreement/ contract according to Item 9 or finish the security procedures, Party B has the right to refuse providing credit to Party A.

Chapter 6 Promise of Party A

Article 9 Party A was formally established under Chinese laws and exists legally, is independent legal person, has free capacity for civil conduct to sign and perform the Contract.

Article 10 Has been completely authorized by the Board and any other authentic organizations to Enter into and carry out the Contract.

Article 11 The documents, materials, vouchers related Party A, guarantor, mortgagor, pledges and so on provided by Party A are true, accurate, complete and effective, and do not have material errors or omit any material facts.

Article 12 Pay off debts according to Specific business contract and pay all outstanding expenses on schedule.

Article 13 The usage of specific line of credit in the Contract must comply with the laws and regulations and the arrangements agreed by the Contract and specific business contracts, and Party A should accept the inspection of Party B at any time.

Article 14 During the credit period, Party A should submit the true financial statements in time, faithfully provided major domestic banks of deposit, bank accounts, deposit and loan balances and other documents related operations to Party B.

Article 15 During the credit period, Party A should notice Party B in advance if Party A provide security to any third party, and shall not affect the ability of paying off the debts to Party B on schedule.

Article 16 During the credit period, Party A should perform the following duty of notification:

- 1. If the domicile, business address of legal representative (person in charge) or legal person, as well as registered capital, equity, and significant investments are changed, Party A should notice Party B within five days after the change date and provide related documents.
- 2. During the credit period, If Party A involves in material litigation, arbitration or other judicial procedure, administrative punishment procedures, or the operation situation, finance situation of Party A have changed materially, and possibly affect the credit realization of Party B, Party A should notice Party B immediately.
- 3. During the credit period, any type of recapitalization activities such as merger, taking over, separating, or any type of activities such as contracting and leasing can change the operation right, or any activities can change the organization structure and operation type, or actions may terminate the operation such as applying for disincorporating and bankrupting of Party A, should all notice Party B two months earlier by written, and must pay off all the debts credited by Party B or perform responsibilities of paying off the debts.

Article 17 The disclosures of related parties and related transactions in the Group which Party A is in, if applicable (hereinafter please indicated by check mark):

Party A is not a group client defined by "Guidelines of credit risk management of the commercial banks about group clients "(" Guidelines ").

□ Party A is not a group client defined by "Guidelines" Party A shall report the related transactions involved in more than 10%'s net assets of Party A to Party B according to the provisions of Article 17 of the "Guidelines", including the relationship, transaction, and the nature of the transaction, involved amount or corresponding ratio, pricing policy between the related parties, (including the transactions with no amount and only symbolic amount).

Chapter 7 Promises of Party B

Article 18 Party A applies for using specific credit in the Contract, Party B shall promptly accept and process, and notice the result to Party A promptly.

Article 19 Unless other agreement signed in this Contract, Party B should not be free to change the maximum line of credit which is negative adjustment to Party A.

Chapter 8 Breaking contract and handling

Article 20 If one of the following situations happens, Party A is deemed as breaking the Contract:

- 1. Offers false information or hides true and important information to Party B, does not coordinate with the investigation, reviewing, and inspection;
- 2. Does not accept or evade supervision of Party B about the usage situation of the credit or involved operation and financial activities; evade
- 3. Does not use the loan and/or other credit according to the Contract and the specific contract;
- 4. Does not repay the loan, advances and other credit capital and interest timely and fully according to the Contract and the specific contract;
- 5. Does not repay the loan, advances and other credit capital and interest of Party A in other financial institution timely and fully;
- 6. Assigns the credit in the Contract to a third party with the agreement of Party B; or manages and demands the matured claim indifferently, or disposes existing assets with no cost or other inappropriate method;
- 7. Other situations Party B thinks may damage the legitimate rights of Party B.

Article 21 If one of the following situations happens on Guarantor, and Party B thinks it may affect the ability of guarantor, Party B may require the Guarantor to eliminate unfavorable conditions, or require Party A to add or change the guarantee condition, and if Guarantor or Party A does not cooperate, Party A is deemed as breaking the Contract:

- 1. Hides actual ability of undertaking guarantee responsibility, or does not acquire the authorization of the competent authority;
- 2. Does not apply for the annual inspection of the registration procedure on time;
- 3. Manages and demands the matured claim indifferently, or disposes existing assets with no cost or other inappropriate method.

Article 22 If one of the following situations happen on the Mortgagor, and Party B thinks it may result in invalid or deficient collateral (or pledge), it may require the Mortgagor to eliminate such unfavorable conditions, or require Party A to add or change the guarantee condition, and if Mortgagor or Party A does not cooperate, Party A is deemed as breaking the Contract:

- 1. Does not have the ownership or disposition of pledges, or the ownership is in controversy;
- 2. The pledges may have situations such as leased, closed down, detained, superintended, existed legal precedent priority (including but not limited the priority of construction), and/or hid these situations;

- 3. The mortgagor transfers, leases, re-pledges or disposes pledges with inappropriate method without the writing agreement of Party B, or has the writing agreement of Party B, but does not repay the loan Party A owes to Party B using the income of disposal of pledges according to the requirements of Party B;
- 4. The mortgagor does not safe keep, maintain, repair the pledges, and result in depreciation and damages on pledges; or the mortgagor's behavior endangers the pledges, result in depreciation on the pledges value; or during the mortgage period, the mortgagor insures for the pledges not according to the requirements of Party B.

Article 23 If any default event happens, Party B has the right to taking the following measures respectively or simultaneously:

- 1. Reduce line of credit in this Contract, or stop use remaining credit amount;
- 2. Take back capital and interest and related costs of issued loans contained in the maximum line of credit in advance;
- 3. During the credit period, the accepted drafts or opened (including opened with carte blanche) letters of credit, guarantee, delivery guarantee and etc., regardless of whether Party B gives money in advance or not, Party B can request Party A add the amount of security, or transfer the deposits of other accounts of Party A open in Party B to the security account for paying off the security provided by Party B in the Contract in the future, or deposit them in a third party for the security of Party B pay for Party A in advance in future;
- 4. Deduct any deposits on the bank accounts of Party A opened in all branches of Party B and Zhuhai China Resources Bank Co., Ltd., for pay off of all debts in the Contract and specific contract;
- 5. Party A should pay all the losses caused to Party B because of the breaking contract by Party A;
- 6. Has the right to retain the recourse under the Contract.

Chapter 9 Effectiveness of the Contract

Article 24 The Contract shall be signed or affixed seal by the authorized signer, and effective after seal affixed.

Chapter 10 Dispute Resolution

Article 25 The Contract and all events involved in the Contract applicable to the Chinese law, and be interpreted in accordance with Chinese law. The disputes of the two parties, happened during the Contract period, should be negotiated by two parties first; if cannot reach an agreement, then can use the <u>following</u> method to settle the disputes:

Litigation. The disputes come within the jurisdiction of the domicile of Party B.

During litigation or arbitration period, the provisions without controversy in the Contract still have to perform.

Chapter 11 Integrity of the Contract

Article 26 Each specific business contract signed by Party A and Party B according to the Contract is effective part of the Contract, and compose of a entirety.

Article 27 If Party A does not perform the responsibilities in any specific business signed by Party A and Party B according to the Contract, it shows that Party A break the Contract, Party B has the right to terminate the Contract and take back all the outstanding credits in advance. Article 28 If other situation that not contained in the Contract, Party A and Party B can reach another writing contract as the attachments, the attachments are effective part of the Contract, have equal validity with the Contract.

Chapter 12 Supplementary articles

Article 29 Party A agrees Party B to inquire Party A's credit status, via credit database, establishing approved by the People's Bank of China and credit information department, and agrees Party B to provide Party A's credit status to the credit database, and agrees that Party B can reasonable use and disclose Party A's information, if Party B has business need.

Article 30 The Contract is made in quadruplicate, Party A one copy and Party B three copies, all have equal validity.

Article 31 If any provision, any respect of the Contract is or becomes illegal, invalid or unenforceable at any time, the legality, validity or enforceability of provisions of the Contract is not impacted or deducted.

Article 32 Adding sub-headings in the Contract are for convenience only and shall not be used for the interpretation of the Contract or any other purpose. The choices, handwriting have equal validity with the printed content of the Contract.

Article 33 Notices, requirements related the Contract sent mutually by both parties, should be sent in writing to related party's address or fax listed in the signature page in the Contract. If any party changes the address or fax, the change party should notice the other party in writing in time.

Article 34 file exchanges between the two parties, if delivery via special man, it deems to be served after handing over; if delivery via registered letter, it deems to be served when the fax is sent.

No text following this page

(This is the signature page, no text)

The Contract is signed by both parties on the date of 2012-4-28. Party A confirmed that the two parties illustrate and discuss all the provisions in detail when signing the Contract, both parties have no doubt about all the provisions in the Contract and have accurate understanding about legal sense of the rights and responsibilities and restriction of liabilities or the exemption clauses.

Party A (seal): /s/[COMPANY SEAL]

Legal representative or authorized agent (signature or seal)

Domicile: Pinghu, Longgang District, Shenzhen

Zip: 518111

Phone: (86)-755-8968 6236 Fax: (86)-755-8968 6819 Contact: Xun Sun

Party B (Seal): /s/ [COMPANY SEAL] Responsible person or authorized representative (signature or seal) Principal business address: 262, 162, Wanxiang City, Luohu District, Shenzhen

Zip Code: 518001 Tel: (86)-755-8281 9695 Fax: (86)-755-82819656 Contact: Gangfu Peng

Maximum Amount Guarantee Contract

Creditor: ZHUHAI, CHINA RESOURCES BANK, SHENZHEN BRANCH Guarantor: (1) SPRINGPOWER TECHNOLOGY (SHENZHEN) CO., LTD.

(2) DANGYU PAN

Whereas the Creditor and SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD. (the debtor) have entered into a series of business contracts (the "Comprehensive Credit") as set first in Article 1 of this Agreement, and the creditor and the debtor each signed a specific credit business credit business contracts or agreements under this contract (hereinafter referred to as the main contract) formed by the creditor, through friendly negotiations and consultations, have entered into this Agreement (the "Agreement") in accordance with relevant laws and regulations of China.

Chapter 1 The principal debt secured

Article 1 the principal debt secured by the guarantor, including:

1, According to the comprehensive credit NO. huayin2012shenzongzi gongsisan 001 the creditor and the debtor entered into all the specific credit business under the contract or agreement of all claims, the highest principal balance of the principal debt secured does not exceed (currency) RMB(amount capitalized) FORTY MILLION ONLY.

The creditor's right shall form in the course of the agreed types of business by and between the Creditor and the Debtor during the period from April 28, 2012 to April 28, 2018.

These businesses, including: the specific kind of business will be the same with the specific business signed by the creditor and the debtor.

- 2, The following circumstances determine the maximum amount covered by the guarantee claims under this contract:
- (1) The creditor's rights determine the expiration. The "expiration" includes the creditor's rights to determine the expiration stipulated in Article one Clause one of this contract and the circumstances that the creditor announces the creditor's rights to determine the term expires in advance in accordance with the national laws and regulations. If the debtor or the guarantor violated the stipulated obligation of the principal contract, the creditor is entitled to announce creditor's rights to determine the term expires in advance;
- (2) New claims cannot occur;
- (3) The creditor and the debtor terminate the master contract or terminate the contract between the creditor and the guarantor;
- (4) Other circumstances as determined by the law claims.
- 3, This contract guarantees the maximum claim amount of this contract and 25 to determine the full amount, and expenses.

Article 2 The contents of this contract guarantee every type of business, the amount, interest rate, duration of the relevant legal instrument or certificate shall prevail.

Article 3 Within the period of this contract and the highest balance, the creditor delivering the contract loans or other bank credit are not required case by case basis recognizance.

Article 4 Whatever the business, the kind of currency occurred within the period of this contract and the highest balance, the guarantor of the original currencies to assume security responsibility.

Chapter 2 The scope of the guarantee

Article 5 Guarantee range

The guarantee scope of this contract is: the principal creditor's rights and interests, compound interests, punish interests, the penalty for breach of contract, compensation fees, other funds that the debtor should pay to the creditor (including but not limited to the related poundage, telecommunication fees, incidental expenses, the related bank expenses that the oversea beneficiary refuses to undertake, etc), the expenses caused by the creditor's achieving the creditor's rights and the guarantee rights (including but not limited to the legal cost, arbitration charge, property maintenance charge, traveling expenses, execution charge, evaluation charge, auction fees, notarization fees, service fees, announcement fees, a retaining fee, etc).

The interests, punish interests, compound interests are counted according to the stipulation of the principal contract, and are counted until the day that the debts are paid off.

Article 6 Due to changes in exchange rates and the actual exceed the highest part of the balance, the guarantor voluntarily assume security responsibility.

Chapter 3 The way of guarantee

Article 7 The guarantee way of this contract is joint and several liability. If under this contract shall have more than one guarantor, the guarantors are jointly and severally liable to creditors.

Chapter 4 The period of guarantee

Article 8 the warranty period

- 1, The guarantee period of the guarantor is two years from the expiration date of the obligation performing period stipulated in the principal contract:
- 2,The guarantee period under the commercial acceptance bills, opening of relief guarantee deposits and letter of guarantee is two years from the date of the creditor's prior paying up of the funds;

- 3. The guarantee period of business draft discount is two years from the expiry date of the discount note;
- 4, If the creditor and debtor reach a postponement agreement upon the obligation fulfillment deadline of the principal contract, the guarantor shall continue to bear the guarantee liabilities, and the guarantee period is two years from the terminated date of the obligation fulfillment period stipulated in the postpone agreement.
- 5, Should the matters stipulated by the laws and regulations or the principal contract happened, and caused the debts under the principal contract's items are announced by the creditor for termination in advance, the guarantee period is two years from the prior expiration date of debts under the items of the principal contract determined by the creditor.

Chapter 5 The representations and warranties of the guarantor

Article 9 Guarantor to the creditor to make the following representations and warranties:

- 1. The authorizations which the guarantee of this contract needed are acquired in accordance with the related stipulation and procedure;
- 2. Provide the creditor the real, complete, valid finance report forms, company constitution or other relevant data, information according to the creditor's demands, and accept the supervision and examination from the creditor to the guarantor's business operation and finance condition;
- 3. All the needed filings or the notarization procedures which the guarantor has already completed or will complete;
- 4. At present not exist any lawsuit, arbitration or administration procedure which relate to the guarantor or his serious business assets, and will cause severe unfavorable influences to the guarantor's finance situation or the ability that the guarantor's performance of obligation in accordance with the contract.

Chapter 6 The guarantor's commitment

Article 10 Before the guaranteed debts are paid off, the guarantor shall abide the regulation of the following clauses:

- 1. If the debtor doesn't perform the obligations stipulated in the principal contract, the guarantor shall perform guarantee liabilities voluntarily;
- 2. If the guarantor doesn't perform the obligations stipulated in the principal contract, the creditor is entitled to take in the relevant funds from the accounts which the guarantor opened in the institutions of the Hua Run bank in Zhuhai;
- 3. The guarantor shall notify the creditor in writing at once in any of the following circumstances:
- (1) The change of the guarantor's name, address, legal representative, contact method, etc; the change of the guarantor's (natural person) job, income, address, corresponding address, contact telephone number, and other personal circumstances during the period of loan;

- (2) The change of the guarantor's subjection relationship, top personnel alteration, company constitution modification, and the adjustment of the organization construction;
- (3) The getting worse of the guarantor's finance situation and the happening of severe difficulties of the production and operation or the severe lawsuit, arbitration events;
 - (4) The guarantor stop production, go out of business, close down and consolidate or be applied bankruptcy, reforming, etc;
 - (5) The guarantor is canceled, revoked business license, ordered close or other disband reasons appear;
 - (6) Guarantor occurs to the detriment of creditors to achieve debt situation.
- 4, one of the following acts, the guarantor 15 days in advance written notice to creditors and consent of the creditor in writing:
- (1) Guarantor to change the capital structure or operating system, including but not limited to, contracting, leasing, the shareholding system reform, joint venture, merger, division, joint venture, capital reduction, asset transfer, application re-engineering, application for reconciliation, filed for bankruptcy:
- (2) Guarantor of debt for the third person to provide a guarantee to guarantee its assets itself or a third party debt, mortgage, pledge, security, and may affect the performance of this contract under the guarantee responsibility.

Chapter 7 The nature and effect of guarantee

Article 11 Should the creditor's rights that the contract guaranteed exist property security (include the properties provided by the debtor or the third person) and the suretyship guaranty, the creditor can achieve the creditor's rights upon the property security; he can also demand the guarantor to bear the guarantee liabilities. The creditor's rights that the contract guaranteed have more than two guarantors of property security (Include the property security provided by the debtor). If the creditor had chosen a certain guarantee to achieve the creditor's right, he can also claim to achieve all or part of the creditor's rights by other guarantees at the same time.

Article 12 If the debtor has provided the property security, and the creditor has given up the real right for security and order of the real right for security, or change the real right for security, the guarantor shall be jointly and severally liable for the creditor's rights under the terms of the principal contract according to the stipulation of the contract. "The real right for security "means the real right for security which formed by the debtor's providing the property security for the creditor's right under the terms of the contract.

Article 13 Guarantor offers guarantee for the numbers of debts (not limited to the terms of this contract) between the debtor and the creditor, and if the guarantor's payment is not enough for the liquidation of all the matured debts, the debts which are paid off and the offset order is determined by the creditor.

Article 14 The creditor performs right of offset to the guarantor in accordance with the provisions of the laws or the stipulation of the contract, the debts that are offset and the offset-order are determined by the creditor; the creditor performs subrogated right according to the laws, the second debtor's liquidated debts for the creditor and the offset-order are determined by the creditor.

Article 15 If the transfer behaviors of the creditor's rights or debts under the items of the contract cannot come into force, or invalid, be canceled, be relieved, the guaranter shall still bear guarantee liabilities for the creditor in accordance with the contract.

Chapter 8 Event of Default and Relief

Article16 Each of the following events issues that constitute the guarantor in the event of default under this Contract:

- 1, The main contract the debtor in the validity of the contract was dissolved, bankrupt;
- 2. Debt under the main contract to fulfill the expiration of the unpaid;
- 3, The emergence of the claims of creditors under the main contract to be difficult to achieve, or other circumstances can not be achieved;
- 4, The guarantor shall suspend or cease operation or enter bankruptcy, liquidation or termination of business or other similar procedures, or the guarantor to apply break

Production, liquidation or the competent department decided to suspend operation or suspend business; guarantor of death has been declared missing or is declared dead;

- 5, The occurrence of significant litigation, arbitration or administrative proceedings against the guarantor or its major operating assets, the guarantor exists the possibility of inability to fulfill the guarantee responsibility;
- 6, The guarantor with the major events of default under the contract between the creditor or other banks;
- 7, The guarantor in breach of its obligations under this contract or the occurrence of creditors that will seriously and adversely affect the other events of its rights under this contract.

Article 17 the above events of default occur, the creditor is entitled to take any one or a number of measures:

- 1. Exercise enjoyed under the main contract and the contract Remedies for Breach;
- 2, All part of the reduction, suspension or termination of the guarantor line of credit;
- 3, All the partial suspension or termination of the accepted applications for the business of the guarantor under other contracts; not yet handle outstanding loans, trade financing, full, partial suspension or termination of the distribution and processing;
- 4, The guarantor under other contracts outstanding loan / trade finance, payments of principal and interest and other payables in whole or in part, immediately due;
- 5, To terminate or cancel this contract, all part of the termination or dissolution of the other contract between the guarantor and the creditor.

Article 18 The following acts of guarantors, according to this contract which guarantees the highest balance of the principal debt to pay liquidated damages to the creditors; caused by the loss of creditors, should be given full compensation:

- 1, has not obtained the contract guarantees the required legal and valid authorization;
- 2, according to the contract to provide true, complete and effective financial statements, articles of association or other relevant information, and information;
- 3, the occurrence of the circumstances of Article 11, paragraph 3 of this contract, did not immediately notify the creditor;
- 4, Article 11, paragraph 4, of the behavior of the implementation of this contract, without the prior consent of the creditors have agreed to.

Chapter 9 Costs and compensation

Article 19 The guarantor shall be the demands of creditors immediately to the creditor to pay or compensation of the following fees:

- 1, The creditors in preparation for the signing of this contract and other relevant documents and this contract to modify, supplement or given agree with what happened all costs and costs (including credit investigation, to check, notary, witness, Lawyer Service, accounting services, audit, identification of fees and all actual expenses); and
- 2, The creditor to exercise its rights under this contract or proceedings against the guarantor or to seek compensation based on the aforementioned subject matter, or defend, abandon or transfer of the process of this contract, all costs and expenses (including attorneys' services, accounting services, auditing, Proceedings of the costs and all actual expenses).

Chapter 10 The right to terminate the opposition period

Article 20 Creditors in accordance with the law or contract to exercise the right of setoff, right of cancellation, the guarantor of the objection period is seven working days, since the creditors in written, oral or other forms of the date of notification of the guarantor from the calculation.

Chapter 11 Others

Article 21 Without the creditor prior consent of the guarantor shall not assign or otherwise dispose of under this contract in whole or in part of its obligations.

Article 22 The creditors will transfer the debt secured by this contract to a third party, the consent of the guarantor, the security interest under this contract shall be simultaneously transferred to a third party guarantor to assume guarantee responsibilities in the original guarantee within the new creditors.

Article 23 After the entry into force of this contract, the guarantor event of separation, merger, borne by the agency after the change of its obligations under this contract.

Article 24 The guarantor is fully aware of the interest rate risk. If the creditor under the main contract or policy changes of the country's interest rates to adjust the level of interest rates, interest-bearing or interest settlement, leading to the main contract, the debtor should repay the interest, penalty interest, compounded increase, the increase in part, the guarantor to assume security responsibility.

Article 25 In addition to the debt under the main contract, the debtor's creditors also bear other maturing debt, the creditor is entitled to deduct the debtor in the creditor banks opened accounts in RMB or other currency amounts to first use any relief in the settlement of any sum due debts, the guaranter of the guarantee obligation.

Article 26 The creditor to give guarantee any grace concessions or delay shall not affect the damage or limit the creditors in accordance with the contract and the laws, regulations and all the rights; should not be regarded as the creditor rights and interests under this Contract give up, does not affect the guarantor of any liability under this contract and obligations.

Article 27 If at any time, any of the terms of this contract in any way or becomes illegal, invalid or unenforceable, the legality, validity or enforceability of the other provisions of this contract without any impact on or detract from.

Article 28 The creditors record the evidence of effectiveness unless there is reliable to determine the evidence to the contrary, the debtor of the creditors of the principal, interest, fees and repayment records the contents of internal accounting records, creditors created or retained to handle withdrawals, repayment occurred in the course of business to pay interest and other documents, vouchers and creditor collection of loan records, documents, constitute valid proof to determine the evidence of the creditor, debtor, creditor-debtor relationship.

Article 29 The guarantor agree to the creditors to the People's Bank of China, and credit information department in charge of approval to establish credit database and relevant units and departments to check the credit status of the guarantor, and agree to the creditors of the guarantor information for approval by the People's Bank of China, and credit information department in charge of to establish credit database. Guarantor and agree to the creditors for the business needs can also be the rational use and disclose the guarantor information.

Article 30 The bankruptcy proceeding in the debtor if the creditor and the debtor reach a settlement agreement, or agree to a restructuring plan, creditors' rights under this contract is not compromised by settlement agreement or restructuring plan, the guaranter of the guarantee obligation be relief. The guarantor shall not be against the creditor's claim to the settlement agreement, the conditions of the reorganization plan provisions. Creditors make concessions in the settlement agreement, restructuring plan to the debtor failed to obtain the settlement of the claims, and still have the right to request the guarantor to assume security responsibility.

Article 31 Notices, requirements related the Contract sent mutually by both parties, should be sent in writing to related party's address or fax listed in the signature page in the Contract. If any party changes the address or fax, the change party should notice the other party in writing in time

File exchanges between the two parties, such as by hand, after delivery shall be deemed served; send a registered letter, three days after the registered letter sent shall be deemed served; such as fax transmission when issued shall be deemed to be served.

Article 32 If the creditor due to business needs to be commissioned by the other branches of China Resources Bank of Zhuhai to fulfill the rights and obligations under this contract, the guarantor of this recognition, creditors authorized China Resources Bank of Zhuhai is entitled to exercise all rights under this contract, the right to this contract under dispute to the courts or submitted to an arbitration body.

Article 33 Adding sub-headings in the Contract are for convenience only and shall not be used for the interpretation of the Contract or any other purpose.

Chapter 12 Applicable law and dispute resolution

Article 34 The Contract and all events involved in the Contract applicable to the Chinese law, and be interpreted in accordance with Chinese law.

Article 35 The disputes of the two parties, happened during the Contract period, should be negotiated by two parties first; if cannot reach an agreement, then can use the method to settle the disputes: litigation. The disputes come within the jurisdiction of the domicile of Party B. During litigation period, the provisions without controversy in the Contract still have to perform.

Chapter 13 The commencement, change and release of the contract

Article 36 This contract signed by the parties (if a party is a natural person, this contract shall be that party's signature, if a party is a legal person or other organization, this contract shall be is entitled to a signed or stamped seal of the signatory and official seal) epigenetic effect.

Article 37 After the entry into force of this contract, either party will be allowed to change or terminate this contract in advance, Such as the contract required the modification or rescission by the guarantor and the creditor consensus and agreement in writing. Written agreement, the provisions of this contract is still valid.

Article 38 In the main contract to modify the debt of the debtor to be mitigating circumstances (including but not limited to the amount of debt reduction under the main contract, the shortening of debt maturity, etc.), the guarantor shall be deemed to have agreed to such modification, so will without prior consent of the guarantor, the guarantor on the change emperor contract debt should continue to assume security responsibility.

Supplementary Provisions 15

Article 39 Of the issues covered in this contract, the guarantor and the creditor both parties will reach a written agreement as an annex to the contract. Hereto is an integral part of this contract with this Contract, the body has the same legal effect.

Article 40 The guarantor should take the initiative to understand the debtor's business conditions and the types of business under this contract (including the amount of transfer credit) occurred fulfillment. Under this contract for various types of business (including the amount of transfer credit), the main contract, the relevant legal instrument or certificate no longer served on the guarantor.

Article 41 The Contract is made in quadruplicate, Party A one copy and Party B three copies, all have equal validity.

Article 42 The enforcement of notary (tick " $\sqrt{}$ " to select) The contract does not apply for the enforcement of notary.

No text below (this page) (This is the signature page, no text)

The Contract is signed by both parties on the date of 2012-4-28. Party A confirmed that the two parties illustrate and discuss all the provisions in detail when signing the Contract, both parties have no doubt about all the provisions in the Contract and have accurate understanding about legal sense of the rights and responsibilities and restriction of liabilities or the exemption clauses.

Creditors (official seal): /s/ [CORPORATE SEAL]
Responsible person or authorized representative (signature or seal)

Principal business address: 262, 162, Wanxiang City, Luohu District, Shenzhen

Zip Code: 518001 Tel: (86)-755-8281 9695 Fax: (86)-755-82819656 Contact: Gangfu Peng

Guarantor (Seal):

Legal representative or authorized representative (signature or seal): /s/ Dangyu Pan

(The above applies to legal persons)

Domicile: Pinghu, Longgang District, Shenzhen

Zip: 518111

Phone: (86)-755-8968 6236 Fax: (86)-755-8968 6819 Contact: Xun Sun

Guarantor (signature): /s/ Dangyu Pan identity document and number: Identification card number:430104196803184316

Zip: 518111

Phone: (86)-755-8968 6236 Fax: (86)-755-8968 6819

Contact:



Email: loansopctr@winglungbank.com

www.winglungbank.com

IMPORTANT NOTICE:

THIS LETTER SETS OUT THE TERMS AND CONDITIONS UPON WHICH OUR BANK WOULD PROVIDE BANKING FACILITIES TO YOU. YOU ARE ADVISED TO READ AND UNDERSTAND SUCH TERMS AND CONDITIONS BEFORE ACCEPTING THIS LETTER, OR IF YOU CONSIDER NECESSARY, SEEK INDEPENDENT LEGAL ADVICE.

Our Ref: 120110U00029901-RL Date: 2 April 2012

Hong Kong Highpower Technology Company Limited Unit 12 15/F Technology Park 18 On Lai Street Shek Mun Shatin

Dear Sir(s)

We are pleased to offer to you the following facilities on the following terms:-

1. The Facilities

1.1 Import/Export Banking facilities:-

	Facility	Uncommitted Export D/A Bills Discounting	
	Limit	Limit Up to HK\$21,000,000.00	
PRC Subsidiary:		Shenzhen Highpower Technology Co Ltd	

Purpose: To finance your procurement of raw materials and general working capital

Advance Ratio: 100% of the HKD equivalent amount of the D/A bill validated by China Merchants Bank Co Ltd

("CMB")

Availability & Drawdown: Subject to receipt by us of the satisfactory legal documentation and fulfillment of all Conditions

Precedent as hereinafter mentioned, the Facility is available for drawing within one month from your acceptance of this Letter. Notwithstanding to the above, loan draw down is subject to our availability of

funds.

Final Maturity Date: The earlier of i) one year from the drawdown date or ii) value date of the D/A bill validated by CMB,

subject always to our right to demand repayment at any time by notice to you.

Interest Rate: 2.65% per annum above HIBOR.

0.75% flat on the Facility amount payable on the first drawdown. The Arrangement Fee is non-Arrangement Fee:

refundable under all circumstances.

Repayment: All amounts outstanding under the Facility shall be repaid in full on the Final Maturity Date.

For each transaction, the tenor shall not exceed 12 months Tenor:

Handling Commission: Refer to "Standard Handling Commission on Import / Export Transactions".

120110U00029901-RL 1/4

Cable Address: "BANKWILUNG" Hong Kong

SWIFT Address: WUBAHKHH

13/F, Wing Lung Bank Centre, 636 Nathan Road, Kowloon, Hong Kong Telex: HX73360



Email: loansopctr@winglungbank.com

www.winglungbank.com

- 1.2 Treasury Facilities for the following products (subject to 2002 ISDA Master Agreement with Schedule):
 - Interest Rate Swap Contracts ("IRS")

IRS are restricted for booking together with the Uncommitted Export D/A Bills Discounting. The amount of IRS or CCS contract shall be equal to the payment amount confirmed by the acceptance by CMB.

Margin Requirement: Waived

The availability of the Treasury Facilities will be at our discretion on case by case basis. Aggregate outstanding transactions under the Treasury Facilities shall be up to such notional amount as determined by us at our sole discretion from time to time.

2. <u>Conditions Precedent</u>

No Facility may be utilized until we have received and found to be satisfactory:

- (a) this Letter duly signed and accepted by you;
- (b) the Arrangement Fee and Interest Payment which will be deducted from drawdown proceed;
- (c) receipt payment confirmation on the D/A Bills issued by CMB under authenticated SWIFT;
- (d) "_____" from the domestic "Tax Authority" in the PRC;
- (e) certified group organization chart plus supporting documents showing the shareholding relationship between the PRC Subsidiary and you;
- (f) copies, certified as true and complete copies of the respective certificate of incorporation; memorandum and articles, identification documents of authorized persons and other relevant documents in identifying the ultimate beneficiary;
- (g) certified true copies of resolutions of the board of directors of your company approving the borrowing on the terms of this Letter and authorizing a person or persons to execute the legal documentations, the notice of drawings and any other notices or documents required in connection herewith;
- (h) latest copy of audited accounts of the PRC Subsidiary showing that they have sufficient retained earnings on book and the availability of cash resources to honour the proposed dividend payment;
- (i) certified copy of board resolution of the PRC Subsidiary declaring the dividend payment which is sufficient to cover D/A Bills amount;

120110U00029901-RL 2/4

Cable Address: "BANKWILUNG" Hong Kong

SWIFT Address: WUBAHKHH

Telex: HX73360

13/F, Wing Lung Bank Centre, 636 Nathan Road, Kowloon, Hong Kong



Email: loansopctr@winglungbank.com

www.winglungbank.com

(j) For Treasury Facilities only

- (i) the 2002 ISDA Master Agreement with Schedule executed by you;
- (ii) the Risk Disclosure Statement for Financial Derivatives executed by you; and
- (k) such other documents relating to any of the matters contemplated herein as may be deemed usual and necessary by us.

3. Covenants and Undertakings

- (a) You undertake to provide any documents as may be requested by us, including but not limited to the followings:
 - (i) necessary documentary proof supporting the disposal of loan proceeds in accordance with approved loan purpose;
 - (ii) any substantial change to the general nature of your existing business;
 - (iii) any changes of information provided to us;
 - (iv) any other material adverse changes affecting yourself, your holding company, your subsidiaries and affiliates; and
 - (v) any difficulty you may have in repaying or servicing outstanding interest and/or principal.
- (b) You shall apply proceeds of any drawing only for the purpose(s) as set out in this Letter.
- (c) You ensure that the proceeds of any drawing will not be transferred to any account maintained by you or any person or corporation with any branch or office of any financial institution in the People's Republic of China.
- (d) You shall apply proceeds of any drawing in compliance with relevant laws and regulations of Hong Kong and the People's Republic of China.
- (e) You shall deliver certified copies of your audited accounts to us within 180 days after each financial year end, together with a certificate signed by directors in compliance with all the terms and conditions.

4. Overriding Rights

Notwithstanding any other provisions of this Letter or any other documents, all undrawn facilities are available at our discretion and may be cancelled by us without condition or notice. You shall, on demand by us at our discretion, pay to us (or as requested provide full cash cover for) all outstanding principal, accrued interest and other amounts payable to us, whether actual or contingent, present or future. We may at any time vary, increase, reduce, suspend, cancel or replace the Facilities and any terms and conditions at our sole discretion, including the amount of any Facility, interest rates, fees and any security documents.

120110U00029901-RL 3/4

Cable Address: "BANKWILUNG" Hong Kong

SWIFT Address: WUBAHKHH

Telex: HX73360

13/F, Wing Lung Bank Centre, 636 Nathan Road, Kowloon, Hong Kong



Email: loansopctr@winglungbank.com

www.winglungbank.com

5. <u>Terms and Conditions for Facilities</u>

The Facilities are subject to our Terms and Conditions for Facilities and, for trade finance facilities, our General Conditions – Trade Finance and, if applicable, Terms and Conditions for Facilities (Stockbrokers) (in each case, as amended by us from time to time). The transactions under Treasury Facilities are also subject to 2002 ISDA Master Agreement with Schedule. If there is any inconsistency between the foregoing documents and this Letter, the terms of this Letter shall prevail.

Please confirm your acceptance of the above by signing and returning to us the attached copy of this Letter within 60 days from the date of this Letter. Otherwise, this offer will automatically lapse.

Yours faithfully

For Wing Lung Bank Limited

/s/ [ILLEGIBLE SIGNATURE]

Authorised Signatures

We accept the Facilities and the above terms and conditions:

/s/ Dangyu Pan

Borrower(s): Hong Kong Highpower Technology Company Limited

Date:

120110U00029901-RL 4/4

Cable Address: "BANKWILUNG" Hong Kong

SWIFT Address: WUBAHKHH

13/F, Wing Lung Bank Centre, 636 Nathan Road, Kowloon, Hong Kong Telex: HX73360