

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, 2013

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**

(State or other jurisdiction of  
incorporation or organization)

**20-4062622**

(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) 755-89686238**

(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  No

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 (§232.405 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  No

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The registrant had 13,582,106 shares of common stock, par value \$0.0001 per share, outstanding as of August 12, 2013.

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**HIGHPOWER INTERNATIONAL, INC.**  
**FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED June 30, 2013**  
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**Item 1. Consolidated Financial Statements**

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

	<u>June 30,</u> <u>2013</u> <i>(Unaudited)</i> \$	<u>December 31,</u> <u>2012</u> \$
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	2,666,806	6,627,334
Restricted cash	24,594,567	27,695,569
Accounts receivable, net	25,556,158	25,323,899
Notes receivable	564,427	392,242
Prepayments	4,633,723	3,223,795
Other receivables	800,984	802,907
Inventories	18,797,421	16,719,807
Total Current Assets	<u>77,614,086</u>	<u>80,785,553</u>
Property, plant and equipment, net	37,466,258	33,462,369
Land use right, net	4,411,408	4,423,348
Intangible asset, net	675,000	700,000
Deferred tax assets	907,594	762,954
Foreign currency derivatives assets	133,225	255,508
<b>TOTAL ASSETS</b>	<u>121,207,571</u>	<u>120,389,732</u>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	27,012,982	27,509,195
Deferred revenue	666,613	661,178
Short-term loan	27,636,005	20,478,604
Notes payable	20,079,201	26,397,200
Other payables and accrued liabilities	6,260,815	4,485,918
Income taxes payable	959,696	1,180,469
Current portion of long-term loan	1,941,590	1,925,762
Total Current Liabilities	<u>84,556,902</u>	<u>82,638,326</u>
Long-term loan	4,853,977	5,777,286
<b>TOTAL LIABILITIES</b>	<u>89,410,879</u>	<u>88,415,612</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	-	-

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

	<u>June 30,</u> <u>2013</u> <i>(Unaudited)</i>	<u>December 31,</u> <u>2012</u>
	\$	\$
<b>EQUITY</b>		
Stockholders' 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, 2013 and December 31, 2012)	1,358	1,358
Additional paid-in capital	5,547,463	6,035,230
Statutory and other reserves	2,790,484	2,790,484
Retained earnings	16,791,993	17,291,584
Accumulated other comprehensive income	<u>5,342,792</u>	<u>5,049,864</u>
<b>Total equity for the Company's stockholders</b>	<u>30,474,090</u>	<u>31,168,520</u>
Non-controlling interest	<u>1,322,602</u>	<u>805,600</u>
<b>TOTAL EQUITY</b>	<u>31,796,692</u>	<u>31,974,120</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>121,207,571</u>	<u>120,389,732</u>

See notes to consolidated financial statements

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

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$	\$	\$
Net sales	31,177,616	29,377,682	55,576,988	49,980,465
Cost of sales	(25,443,157)	(23,369,258)	(45,079,349)	(40,299,782)
Gross profit	<u>5,734,459</u>	<u>6,008,424</u>	<u>10,497,639</u>	<u>9,680,683</u>
Research and development expenses	(1,350,997)	(1,233,585)	(2,453,465)	(2,117,931)
Selling and distribution expenses	(1,392,576)	(1,282,499)	(2,787,978)	(2,481,399)
General and administrative expenses, including stock-based compensation	(2,612,855)	(2,263,983)	(5,418,246)	(4,278,468)
Income (loss) on exchange rate difference	(180,010)	153,360	(219,957)	122,030
Gain (loss) of derivative instruments	112,335	(304,147)	222,283	32,956
Total operating expenses	<u>(5,424,103)</u>	<u>(4,930,854)</u>	<u>(10,657,363)</u>	<u>(8,722,812)</u>
Income (loss) from operations	310,356	1,077,570	(159,724)	957,871
Other income	281,236	61,185	497,385	228,218
Interest expenses	(365,146)	(301,123)	(701,412)	(313,441)
Income (loss) before taxes	<u>226,446</u>	<u>837,632</u>	<u>(363,751)</u>	<u>872,648</u>
Income taxes expenses	(159,110)	(362,941)	(207,329)	(416,266)
Net income (loss)	<u>67,336</u>	<u>474,691</u>	<u>(571,080)</u>	<u>456,382</u>
Less: net loss attributable to non-controlling interest	(41,953)	(29,023)	(71,489)	(50,517)
Net income (loss) attributable to the Company	<u>109,289</u>	<u>503,714</u>	<u>(499,591)</u>	<u>506,899</u>
Comprehensive income (loss)				
Net income (loss)	67,336	474,691	(571,080)	456,382
Foreign currency translation gain (loss)	526,996	(300,800)	298,942	(155,895)
Comprehensive income (loss)	<u>594,332</u>	<u>173,891</u>	<u>(272,138)</u>	<u>300,487</u>
Less: comprehensive loss attributable to non-controlling interest	(31,257)	(46,997)	(65,475)	(68,449)
Comprehensive income (loss) attributable to the Company	<u>625,589</u>	<u>220,888</u>	<u>(206,663)</u>	<u>368,936</u>
Earnings (loss) per share of common stock attributable to the Company				
- Basic and diluted	<u>0.01</u>	<u>0.04</u>	<u>(0.04)</u>	<u>0.04</u>
Weighted average number of common stock outstanding				
- Basic and diluted	<u>13,582,106</u>	<u>13,582,106</u>	<u>13,582,106</u>	<u>13,582,106</u>

See notes to consolidated financial statements

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

	<i>Six months ended June 30,</i>	
	<u>2013</u>	<u>2012</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$
<b>Cash flows from operating activities</b>		
Net income (loss)	(571,080)	456,382
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	1,182,314	999,544
Allowance for doubtful accounts	(3,965)	282,127
Loss on disposal of property, plant and equipment	102,926	56,703
Income on derivative instruments	123,333	31,278
Deferred income tax	(137,726)	106,644
Share based payment	94,710	93,164
Changes in operating assets and liabilities		
Accounts receivable	(41,371)	(4,971,615)
Notes receivable	(167,535)	(1,227,504)
Prepayments	(1,372,932)	591,874
Other receivable	8,451	240,454
Inventories	(1,924,454)	(2,907,198)
Accounts payable	1,414,867	5,680,116
Deferred revenue	-	652,157
Other payables and accrued liabilities	1,725,062	1,481,165
Income taxes payable	(228,533)	69,855
<b>Net cash flows provided by operating activities</b>	<u>204,067</u>	<u>1,635,146</u>
<b>Cash flows from investing activities</b>		
Acquisition of plant and equipment	(7,335,376)	(8,484,171)
Acquisition of land use right	-	(1,326,010)
<b>Net cash flows used in investing activities</b>	<u>(7,335,376)</u>	<u>(9,810,181)</u>
<b>Cash flows from financing activities</b>		
Proceeds from short-term bank loans	15,581,691	5,871,646
Repayment of short-term bank loans	(8,515,280)	(1,196,676)
Proceeds from long-term bank loans	-	7,914,523
Repayment of long-term bank loans	(962,603)	-
Proceeds from notes payable	20,038,103	19,682,410
Repayment of notes payable	(26,517,924)	(16,633,527)
Repayment of letter of credit	-	(2,880,000)
Proceeds from non-controlling interest	-	949,743
Increase (decrease) in restricted cash	3,280,806	(5,387,117)
<b>Net cash flows provided by financing activities</b>	<u>2,904,793</u>	<u>8,321,002</u>
Effect of foreign currency translation on cash and cash equivalents	265,988	(201,599)
Net decrease in cash and cash equivalents	(3,960,528)	(55,632)
Cash and cash equivalents - beginning of period	6,627,334	5,175,623
Cash and cash equivalents - end of period	<u>2,666,806</u>	<u>5,119,991</u>
<b>Supplemental disclosures for cash flow information :</b>		
Cash paid for :		
Income taxes	<u>573,588</u>	<u>239,767</u>
Interest expenses	<u>701,412</u>	<u>590,399</u>
Non-cash transactions		
Accounts payable for construction in progress	<u>1,649,807</u>	<u>1,501,464</u>

See notes to consolidated financial statements

HIGHPOWER INTERNATIONAL, INC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

**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. 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 are incorporated in the People's Republic of China ("PRC").

On February 8, 2012, GZ Highpower, which was incorporated on September 21, 2010, increased its paid-in capital to RMB15,000,000 (\$2,381,293). On May 15, 2013, GZ Highpower further increased its paid-in capital to RMB30,000,000 (\$4,807,847). SZ Highpower holds 60% of the equity interest of GZ Highpower, and four founding management members of GZ Highpower hold the remaining 40%.

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

On September 14, 2012, SZ Springpower increased its registered capital from \$1,000,000 to \$3,330,000. SZ Highpower paid the increased capital. As of June 30, 2013, SZ Highpower holds 69.97% of the equity interest of SZ Springpower, and HKHTC holds the remaining 30.03%.

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	100%	Investment holding
Shenzhen Highpower Technology Co., Ltd ("SZ Highpower")	PRC October 8, 2002	100%	Manufacturing & marketing of batteries
Highpower Energy Technology (Huizhou) Co., Ltd ("HZ Highpower")	PRC January 29, 2008	100%	Inactive
Springpower Technology (Shenzhen) Co., Ltd ("SZ Springpower")	PRC June 4, 2008	100%	Research & manufacturing of batteries

HIGHPOWER INTERNATIONAL, INC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

**1. Organization and basis of presentation (continued)**

Ganzhou Highpower Technology Co., Ltd ("GZ Highpower")	PRC September 21, 2010	60%	Processing, marketing and research of battery materials
Icon Energy System Co., Ltd. ("ICON")	PRC February 23, 2011	100%	Research and production of advanced battery packs and systems
Huizhou Highpower Technology Co., Ltd ("HZ HTC")	PRC March 8, 2012	100%	Manufacturing & marketing of batteries

**2. Summary of significant accounting policies**

Basis of presentation

The accompanying consolidated balance sheet as of December 31, 2012, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements as of June 30, 2013 and for the three and six month periods ended June 30, 2013 and 2012 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures, which are normally included in financial statements prepared in accordance with United States generally accepted accounting principles (U.S. GAAP), 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, 2012, 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, 2013, its consolidated results of operations and cash flows for the six month periods ended June 30, 2013 and 2012, 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.

Consolidation

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



HIGHPOWER INTERNATIONAL, INC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

**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, 2013 and 2012, there was one customer, Energizer Holdings, Inc., that accounted for 10% or more of total net sales. The percentages of total net sales from Energizer Holdings, Inc. in the six months ended June 30, 2013 and 2012 were 11.4% and 17.8%, respectively.

One of the Company's third-party customers accounted for 10% or more of total accounts receivable. The top third-party customer accounted for 7.1% of the accounts receivable as of June 30, 2013 and 16% of the accounts receivable as of December 31, 2012.

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 consolidated balance sheets.

HIGHPOWER INTERNATIONAL, INC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

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

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.

Inventories

Inventories are stated at lower of cost or market. Cost is determined using the weighted average method. Inventory includes raw materials, packing materials, consumables, 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	33%
Machinery and equipment	10%
Motor vehicles	20%

Upon sale or disposal, 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.

HIGHPOWER INTERNATIONAL, INC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

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

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 PRC. 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 PRC, and a royalty-bearing, non-exclusive worldwide license to use certain patents owned by Ovonic to manufacture, sell and distribute Consumer Batteries. The value of the licenses was established based on historic acquisition costs.

An exclusive proprietary technology contributed by the four founding management members of GZ Highpower in exchange for the paid-in capital of GZ Highpower is recorded at the four management members' historical cost basis of nil.

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

Deferred Revenue

Deferred revenue represents the government grants received related to developing property, and will be recognized over the useful lives of the assets. The Company received a grant of \$666,613 on May 28, 2012 from the Department of Industry and Information Technology for the construction of the new factory in Ganzhou City, Jiangxi Province, PRC. The Company will apply the deferred revenue to reduce the cost basis of the assets, upon completion of construction of the warehouse, thus 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 when all of the following criteria exist: (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 expenses directly attributable to the conduct of research and development programs, including the expenses of salaries, employee benefits, materials, supplies, and maintenance of research equipment. All expenditures associated with research and development are expensed as incurred.

HIGHPOWER INTERNATIONAL, INC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

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

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, 2013 and 2012.

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.

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 as of June 30, 2013 and December 31, 2012.

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, are components of comprehensive income or loss. The components of other comprehensive income or loss consisted solely of foreign currency translation adjustments, net of the income tax effect.

HIGHPOWER INTERNATIONAL, INC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in US Dollars)

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

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 PRC 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 PRC 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.

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, and 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 maximizing the use of observable inputs and minimizing 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.

The Company measures fair value using three levels of inputs that may be used to measure fair value:

-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.

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

Derivatives

From time to time the Company may utilize foreign currency forward contracts to reduce the impact of foreign currency exchange rate risk. Management considered that the foreign currency forwards 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 therefore are accounted for as derivatives, with fair value changes reported as gain (loss) of derivative instruments in the income statement. The fair value balance of the foreign currency derivatives assets was \$133,225 and \$255,508 as of June 30, 2013 and December 31, 2012, respectively.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing income attributable to holders of common shares by the weighted average number of common shares outstanding during the period. 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 612,500 options and warrants outstanding as of June 30, 2013 which were not included in the calculation of diluted earnings per share for the six months ended June 30, 2013 because of the net loss sustained for the period or for the three months ended June 30, 2013 because their exercise price would be above average market value.

There were 727,500 options and warrants outstanding as of June 30, 2012 which were not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2012 because their exercise price would be above average market value.

Recently issued accounting pronouncements

As of August 12, 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2012-01 through ASU 2013-11, which are not expected to have a material impact on the consolidated financial statements upon adoption.

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**3. Accounts receivable, net**

As of June 30, 2013 and December 31, 2012, accounts receivable consisted of the following:

	<i>June 30, 2013</i>	<i>December 31, 2012</i>
	<i>(Unaudited)</i>	
	\$	\$
Accounts receivable	27,581,588	27,353,677
Less: allowance for doubtful debts	2,025,430	2,029,778
	<u>25,556,158</u>	<u>25,323,899</u>

The Company reversed bad debt expense of \$3,965 during the six months ended June 30, 2013 and experienced bad debt expense of nil and \$282,127 during the six months ended June 30, 2013 and 2012, respectively.

The Company wrote off accounts receivable of \$1,348 and \$91,295, respectively, in the six months ended June 30, 2013 and 2012.

The account receivable attributable to SZ Springpower, with a carrying amount of \$10,497,137, was pledged as collateral for bank loans as of June 30, 2013.

**4. Prepayments**

	<i>June 30, 2013</i>	<i>December 31, 2012</i>
	<i>(Unaudited)</i>	
	\$	\$
Purchase deposits paid	2,483,707	1,120,911
Advance to staff	151,924	70,882
Other deposits and prepayments	1,196,717	1,261,523
Valued-added tax prepayment	801,375	770,479
	<u>4,633,723</u>	<u>3,223,795</u>

Other deposits and prepayments represent deferred expenses and prepayments to services providers.

**5. Other receivables**

	<i>June 30, 2013</i>	<i>December 31, 2012</i>
	<i>(Unaudited)</i>	
	\$	\$
Deposit for land use right	511,764	507,592
Others	289,220	295,315
	<u>800,984</u>	<u>802,907</u>

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**6. Inventories**

	<i>June 30,</i> <i>2013</i>	<i>December 31,</i> <i>2012</i>
	<i>(Unaudited)</i>	
	\$	\$
Raw materials	4,335,290	4,237,094
Work in progress	2,340,783	2,678,471
Finished goods	11,829,480	9,647,671
Packing materials	18,637	12,727
Consumables	273,231	143,844
	<u>18,797,421</u>	<u>16,719,807</u>

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 fair value for the difference with charges to cost of sales. \$78,396 and \$462,263 was written down for inventories in the six months ended June 30, 2013 and 2012, respectively.

**7. Property, plant and equipment, net**

	<i>June 30,</i> <i>2013</i>	<i>December 31,</i> <i>2012</i>
	<i>(Unaudited)</i>	
	\$	\$
<b>Cost</b>		
Construction in progress	23,105,557	20,769,452
Furniture, fixtures and office equipment	3,132,082	3,066,411
Leasehold improvement	812,550	99,477
Machinery and equipment	17,061,481	15,807,695
Motor vehicles	1,370,476	1,316,717
Building	819,346	271,921
	46,301,492	41,331,673
Less: accumulated depreciation	8,835,234	7,869,304
	<u>37,466,258</u>	<u>33,462,369</u>

The Company recorded depreciation expenses of \$1,101,403 and \$931,714 for the six months ended June 30, 2013 and 2012, respectively, and \$568,964 and \$470,414 for the three months ended June 30, 2013 and 2012, respectively.

The capitalized interest recognized in construction in progress was \$nil and \$251,135 for the six months ended June 30, 2013 and 2012.

The real estate properties of the HuiZhou facilities were pledged as collateral for bank loans as of June 30, 2013. The carrying amount of the real properties was estimated to be \$10,422,899. No property, plant and equipment were pledged as collateral for bank loans as of December 31, 2012.



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**8. Land use rights, net**

	<i>June 30, 2013</i>	<i>December 31, 2012</i>
	<i>(Unaudited)</i>	
	\$	\$
<b>Cost</b>		
Land located in Huizhou	3,474,325	3,446,001
Land located in Ganzhou	1,355,403	1,344,353
	4,829,728	4,790,354
Accumulated amortization	(418,320)	(367,006)
<b>Net</b>	<b>4,411,408</b>	<b>4,423,348</b>

As of June 30, 2013, land use rights of the Company included certain parcels of land located in Huizhou City, Guangdong Province, PRC and Ganzhou City, Jiangxi Province, PRC. Land use rights for land in Huizhou City with an area of approximately 126,605 square meters and in Ganzhou City with an area of approximately 58,669 square meters will expire on May 23, 2057 and January 4, 2062, respectively.

Land use rights are being amortized annually using the straight-line method over a contract term of 50 years. Estimated amortization for the coming years is as follows

	\$
Remaining 2013	48,297
2014	96,595
2015	96,595
2016	96,595
2017	96,595
2018 and thereafter	3,976,731
	<b>4,411,408</b>

The Company recorded amortization expenses of \$47,890 and \$42,830 for the six months ended June 30, 2013 and 2012, respectively, and \$24,110 and \$23,144 for the three months ended June 30, 2013 and 2012, respectively.

The land use right for land located in Huizhou City was pledged as collateral for bank loans as of June 30, 2013 and December 31, 2012.

**9. Intangible asset**

	<i>June 30, 2013</i>	<i>December 31, 2012</i>
	<i>(Unaudited)</i>	
	\$	\$
<b>Cost</b>		
Consumer battery license fee	1,000,000	1,000,000
Accumulated amortization	(325,000)	(300,000)
<b>Net</b>	<b>675,000</b>	<b>700,000</b>

The Company is amortizing the \$1,000,000 cost of the Consumer Battery License agreement with Ovonic 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 expenses were \$25,000 for the six months ended June 30, 2013 and 2012, and \$12,500 for the three months ended June 30, 2013 and 2012.

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**10. Other payables and accrued liabilities**

	<i>June 30,</i> <i>2013</i>	<i>December 31,</i> <i>2012</i>
	<i>(Unaudited)</i>	
	\$	\$
Accrued expenses	3,199,702	3,197,899
Royalty payable	574,805	570,120
Sales deposits received	1,992,253	430,503
Other payables	494,055	287,396
	<u>6,260,815</u>	<u>4,485,918</u>

**11. Taxation**

The Company and its subsidiaries file tax returns separately.

1) VAT

Pursuant to the Provisional Regulation of the PRC on VAT and the related implementing rules, all entities and individuals ("taxpayers") that are engaged in the sale of products in the PRC 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 PRC 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. or Delaware state corporate income tax. No deferred U.S. taxes are recorded since all accumulated profits in the PRC will be permanently reinvested in the PRC.

Hong Kong

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

PRC

In accordance with the relevant tax laws and regulations of the PRC, a company registered in the PRC is subject to income taxes within the PRC 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 PRC Enterprise Income Tax Law. It is eligible to enjoy a preferential tax rate of 15% for the calendar years 2013 and 2012. All the other PRC subsidiaries are not entitled to any tax holiday. They were subject to income tax at a rate of 25% for calendar years 2013 and 2012.

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**11. Taxation (continued)**

The components of the provision for income taxes are:

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$	\$	\$
Current	185,132	213,774	345,055	309,622
Deferred	(26,022)	149,167	(137,726)	106,644
Total	<u>159,110</u>	<u>362,941</u>	<u>207,329</u>	<u>416,266</u>

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

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$	\$	\$
(Loss) income before tax	226,446	837,632	(363,751)	872,648
Provision for income taxes at applicable income tax rate	54,201	259,430	(102,420)	234,102
Effect of preferential tax rate	(12,524)	(109,868)	43,970	(173,445)
Non-deductible expenses	17,912	966	43,699	112,777
Change in valuation allowance	99,521	212,413	222,080	242,832
Effective enterprise income tax	<u>159,110</u>	<u>362,941</u>	<u>207,329</u>	<u>416,266</u>

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.

	<i>June 30,</i>	<i>December 31,</i>
	<u>2013</u>	<u>2012</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$
Tax loss carry-forward	2,384,431	2,025,888
Allowance for doubtful receivables	71,913	72,124
Allowance for inventory obsolescence	111,968	111,227
Fair value change of currency forwards	(19,984)	(11,372)
Difference for sales cut-off	63,840	49,364
Deferred Revenue	166,653	165,295
Total gross deferred tax assets	2,778,821	2,412,526
Valuation allowance	(1,871,227)	(1,649,572)
Total net deferred tax assets	<u>907,594</u>	<u>762,954</u>

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**12. 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 \$20,079,201 and \$26,397,200 as of June 30, 2013 and December 31, 2012, respectively.

**13. Short-term loans**

	<i>June 30, 2013</i>	<i>December 31, 2012</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$
Short- term bank loans guaranteed and repayable within one year	27,636,005	20,478,604

As of June 30, 2013, the above bank borrowings were for working capital purposes and were secured by personal guarantees executed by certain directors of the Company, a land use right with a carrying amount of \$3,092,149, real properties with a carrying amount of \$10,422,899 and a trade receivable with a carrying amount of \$10,497,137.

The loans were primarily obtained for general working capital. Carried interest rates range from 1.3% to 6.9% per annum.

**14. Lines of credit**

The Company entered into various credit contracts and revolving lines of credit, which were used for short-term loans and bank acceptance bills. The following tables summarize the unused lines of credit as of June 30, 2013 and December 31, 2012:

<i>Lender</i>	<i>June 30, 2013 (Unaudited)</i>			
	<i>Starting date</i>	<i>Maturity date</i>	<i>Line of credit</i>	<i>Unused line of credit</i>
			\$	\$
Shanghai Commercial & Savings Bank	8/29/2012	8/29/2013	2,600,000	850,000
Shanghai Commercial & Savings Bank	9/7/2012	9/6/2013	6,000,000	3,000,000
Industrial and Commercial Bank of China	7/26/2012	7/25/2015	6,471,968	2,962,220
China Citic Bank	3/29/2013	3/29/2014	7,280,964	5,667,826
Ping An Bank Co., Ltd	12/7/2012	11/21/2013	22,651,889	19,140,846
Bank of China	1/25/2013	1/25/2014	3,235,984	22,005
Bank of China	1/10/2013	1/10/2014	11,325,944	1,298,018
Industrial and Commercial Bank of China (MACAU)LIMITED	3/14/2013	9/19/2013	3,000,000	-
China Everbright Bank	5/30/2013	5/29/2014	6,471,968	3,898,714
<b>Total</b>			<b>69,038,717</b>	<b>32,839,629</b>

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14. Lines of credit (continued)

<i>Lender</i>	<i>December 31, 2012</i>			
	<u><i>Starting date</i></u>	<u><i>Maturity date</i></u>	<u><i>Line of credit</i></u>	<u><i>Unused line of credit</i></u>
			\$	\$
Bank of China	1/13/2012	1/12/2013	8,024,008	457,047
Wing Lung Bank Ltd.	3/29/2012	3/28/2013	2,600,000	-
Wing Lung Bank Ltd.	4/20/2012	4/19/2013	2,709,398	-
Shanghai Commercial & Savings Bank	7/31/2012	6/7/2013	4,000,000	-
Shanghai Commercial & Savings Bank	8/29/2012	8/29/2013	2,600,000	850,000
Shanghai Commercial & Savings Bank	9/7/2012	9/6/2013	6,000,000	3,000,000
Industrial and Commercial Bank of China	7/26/2012	7/25/2015	6,419,206	2,321,345
Ping An Bank Co., Ltd	12/7/2012	11/21/2013	22,467,222	13,645,467
China Everbright Bank	8/1/2012	7/31/2013	8,024,008	8,024,008
China Resources Bank Of Zhuhai	4/28/2012	4/28/2013	6,419,206	6,419,206
<b>Total</b>			<b>69,263,048</b>	<b>34,717,073</b>

The lines of credits from Bank of China, Industrial and Commercial Bank of China, China Everbright Bank, Ping An Bank Co., Ltd and China Citic Bank are guaranteed by the Company's Chief Executive Officer, Mr. Dang Yu Pan.

Certain of the agreements governing the Company's loans include standard affirmative and negative covenants, including restrictions on granting additional pledges on the Company's property and incurring additional debt and obligations to provide advance notice of major corporate actions, and other covenants including: that the borrower may not serve as a guarantor for more than double its net assets; that the borrower is restricted in certain circumstances from using the loans in connection with related party transactions or other transactions with affiliates; that the borrower must provide monthly reports to certain lenders describing the actual use of loans; that the borrower may need to obtain approval to engage in major corporate transactions; and that the borrower may need to obtain approval to increase overseas investments, guarantee additional debt or incur additional debt by an amount which exceeds 20% of its total net assets should the lender determine that such action would have a material impact on the ability of the borrower to repay the loan. The covenants in these loan agreements could prohibit the Company from incurring any additional debt without consent from its lenders. The Company believes it would be able to obtain consents from the lenders in the event it needed to do so. The agreements governing the Company's loans may also include covenants that, in certain circumstances, may require the Company's PRC operating subsidiaries to give notice to, or obtain consent from, certain of their lenders prior to making a distribution of net profit, as well as covenants restricting the ability of the Company's PRC operating subsidiaries from extending loans. As of June 30, 2013 and December 31, 2012, the Company was in compliance with all material covenants in its loan agreements.

15. Long-term loans

	<u><i>June 30,</i></u> <u><i>2013</i></u>	<u><i>December 31,</i></u> <u><i>2012</i></u>
	<u><i>(Unaudited)</i></u>	
	\$	\$
Long term loans from Bank of China	6,795,567	7,703,048
Less: current portion of long-term borrowings	1,941,590	1,925,762
Long- term bank loans, net of current portion	<u>4,853,977</u>	<u>5,777,286</u>

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**15. Long-term loans (continued)**

On January 13, 2012, the Company borrowed \$7,954,437 (RMB50 million) from the Bank of China, which is guaranteed by the Company's Chief Executive Officer, Mr. Dang Yu Pan. It is a five-year long-term loan, with an annual interest rate of 7.04%, which was equal to 110% of the benchmark-lending rate of the People's Bank of China ("PBOC") as of June 30, 2013. Interest expenses are to be paid quarterly.

The interest expenses were \$282,224 and \$185,705 for the six months ended June 30, 2013 and 2012, respectively, and \$130,939 and \$165,732 for the three months ended June 30, 2013 and 2012, respectively.

The principal is to be repaid quarterly from September 30, 2012. 2% of the principal was repaid on each of September 30, 2012 and December 30, 2012, respectively. Thereafter 6% of the principal is to be repaid every quarter after December 31, 2012 until the maturity date. The repayment schedule of the principal is summarized as in below table:

	\$
Remaining 2013	970,797
2014	1,941,590
2015	1,941,590
2016	1,941,590
	<u>6,795,567</u>

**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 adjustment in the event of a recapitalization in accordance with the terms of the 2008 Plan.

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 up to ten years and generally vest over three to five years with an exercise price equal to the fair market value on the date of grant. Incentive stock options (ISOs) granted must have an exercise price below or comparable to the fair market value on the date of grant. Repricing of stock options and SARs is permitted 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. As of June 30, 2013, approximately 1,418,000 shares of our common stock remained available for issuance pursuant to awards (other than outstanding awards) under the 2008 Plan.

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16. Share-based compensation expenses (continued)  
Share-based compensation related to employees

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Term in Years</u>
Outstanding, January 1, 2013	665,000	\$ 2.81	
Granted	-	\$ -	
Exercised	-	\$ -	
Forfeited	<u>100,000</u>	<u>\$ 1.15</u>	
Outstanding, June 30, 2013	<u>565,000</u>	<u>\$ 3.10</u>	<u>7.70</u>
Exercisable, June 30, 2013	275,000	\$ 3.24	7.66

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**16. Share-based compensation expenses (continued)**

**Share-based compensation related to employees (continued)**

During the six months ended June 30, 2013, the Company did not grant any new options to employees. During the six months ended June, 2013, one employee resigned and options to purchase a total of 100,000 shares were forfeited in the accordance with the terms and conditions of the 2008 Plan.

The weighted-average fair value of options granted to employees for the six months ended June 30, 2012 was \$0.74 per share as calculated using the Black Scholes pricing model, with the following weighted-average assumptions. No options were granted during the six months ended June 30, 2013.

	<i>Six months ended</i>	
	<u>2013</u>	<u>2012</u>
Expected volatility	-	71.78%
Risk-free interest rate	-	1.09%
Expected term from grant date (in years)	-	6.25
Dividend rate	-	-
Forfeiture rate	-	9.78%
Fair value	-	\$ 0.74

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.



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**16. Share-based compensation expenses (continued)**

**Total share-based payment expenses**

As of June 30, 2013 the gross amount of unrecognized share-based compensation expense relating to unvested share-based awards held by employees was approximately \$0.3 million, which the Company anticipates recognizing as a charge against income over a weighted average period of 1.26 years.

In connection with the grant of stock options to employees and nonemployees, the Company recorded stock-based compensation charges of \$45,671 and \$0, respectively, for the three-month period ended June 30, 2013 and stock-based compensation charges of \$51,831 and \$261, respectively, for the three-month period ended June 30, 2012. The Company recorded stock-based compensation charges of \$94,208 and \$502, respectively, for the six-month period ended June 30, 2013 and stock-based compensation charges of \$92,632 and \$533, respectively, for the six-month period ended June 30, 2012.

*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 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 expected volatilities used for the three and six month periods ended June 30, 2013 and 2012 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.

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**17. Earnings (loss) per share**

Basic earnings (loss) 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. 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 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 shares of common stock in the diluted EPS computation in periods of losses from continuing operations, as their effect would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per common share for the six months ended June 30, 2013 and 2012, and the three months ended June 30, 2013 and 2012.

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$	\$	\$
<b>Numerator:</b>				
Net income (loss) attributable to the Company	<u>109,289</u>	<u>503,714</u>	<u>(499,591)</u>	<u>506,899</u>
<b>Denominator:</b>				
Weighted-average shares outstanding - Basic and diluted	<u>13,582,106</u>	<u>13,582,106</u>	<u>13,582,106</u>	<u>13,582,106</u>
Earnings (loss) per common share - Basic and diluted	<u>0.01</u>	<u>0.04</u>	<u>(0.04)</u>	<u>0.04</u>

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. 565,000 shares of common stock underlying stock options and 47,500 shares of common stock underlying warrants were not included in the fully diluted computation for the six months ended June 30, 2013 because of net loss sustained or for the three months ended June 30, 2013 because their exercise price would be above average market value.

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**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 from the issuance date.

The fair value of the warrants at September 19, 2008, the issuance date was \$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, 2013, warrants to purchase 47,500 shares of common stock were still outstanding.

**19. Defined contribution plan**

Full-time employees of the Company in the PRC 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 PRC 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 \$823,060 and \$507,397 for the six months ended June 30, 2013 and 2012, respectively, and \$452,729 and \$281,355 for the three months ended June 30, 2013 and 2012, respectively.

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**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 2013 to 2016, with options to renew the leases. 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, 2013 are as follows:

	\$
Remaining 2013	595,160
2014	986,825
2015	919,627
2016	864,225
	<u>3,365,837</u>

Rent expenses for the six months ended June, 2013 and 2012 were \$630,382 and \$618,849 respectively, for the three months ended June, 2013 and 2012, rent expenses were \$301,483 and \$308,603, respectively.

Capital commitments and contingency

The Company had contracted capital commitments of \$Nil and \$791,934, for the construction of the Ganzhou plant as of June 30, 2013 and December 31, 2012, respectively.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES  
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**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 as defined by FASB Accounting Standard Codification Topic 280 (ASC 280) "Segment Reporting".

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

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	\$	\$	\$	\$
<b><i>Net revenue</i></b>				
China (including Hong Kong)	16,745,956	14,772,662	27,627,991	27,592,602
Asia, others	3,674,631	2,345,866	7,108,620	3,464,946
Europe	8,065,607	7,459,918	15,467,649	11,806,378
North America	2,355,550	4,719,437	4,775,500	7,016,240
South America	126,358	-	291,366	-
Africa	175,976	27,690	219,398	48,190
Others	33,538	52,109	86,464	52,109
	<u>31,177,616</u>	<u>29,377,682</u>	<u>55,576,988</u>	<u>49,980,465</u>
			<i>June 30,</i>	<i>December 31,</i>
			<u>2013</u>	<u>2012</u>
			<i>(Unaudited)</i>	
			\$	\$
<b><i>Accounts receivable</i></b>				
China (including Hong Kong)		16,768,440	15,575,555	
Asia, others		2,071,529	2,435,129	
Europe		6,170,287	5,537,976	
North America		469,090	1,632,644	
South America		49,724	97,097	
Africa		27,088	35,164	
Others		-	10,334	
		<u>25,556,158</u>	<u>25,323,899</u>	

## 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 ("HKHTC"), HKHTC's wholly-owned subsidiaries Shenzhen Highpower Technology Company Limited ("SZ Highpower"), Icon Energy System Company Limited ("ICON") and Huizhou Energy Technology (Huizhou) Co. ("HZ Highpower"), which has not yet commenced operations; SZ Highpower's wholly-owned subsidiary, Huizhou Highpower Technology Company Limited ("HZ HTC") and its 60%-owned subsidiary Ganzhou Highpower Technology Company Limited ("GZ Highpower"); and SZ Highpower's and HKHTC's jointly owned subsidiary, Springpower Technology (Shenzhen) Company Limited ("SZ Springpower").

### 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, 2012 (the "Annual Report").

This 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 management's current views with respect to future events and financial performance and involve risks and uncertainties, including, without limitation, the current economic downturn and uncertainty in the European economy 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; our ability to maintain increased margins; changes in the laws of the PRC that affect our operations; our ability to complete construction of and to begin manufacturing operations at our new manufacturing facilities on time; our ability to control operating expenses and costs related to the construction of our new manufacturing facilities; 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 our products in the time frame and amounts expected; the market acceptance of our battery products, including our lithium products; our ability to successfully develop products for and penetrate the electric transportation market; our ability to continue R&D development to keep up with technological changes; our exposure to product liability, safety, and defect claims; rising labor costs, volatile metal prices, and inflation; 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 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 was 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 to Hong Kong Highpower Technology, Inc. We subsequently changed our name to Highpower International, Inc. in October 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 12, 2013. In February 2011, HKHTC formed another wholly-owned subsidiary, Icon Energy System Company Limited, a company organized under the laws of the PRC, which commenced operations in July 2011.

SZ Highpower was founded in 2001 in the PRC. SZ Highpower formed GZ Highpower in September 2010. On February 8, 2012, GZ Highpower increased its registered capital from RMB2,000,000 (\$293,574) to RMB30,000,000 (\$4,853,976). SZ Highpower holds 60% of the equity interest of GZ Highpower, and the four founding management members of GZ Highpower hold the remaining 40%. As of June 30, 2013, the paid-in capital was RMB30,000,000 (\$4,853,976). SZ Highpower formed HZ HTC in March 2012, which 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.

### **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. generally accepted accounting principles.

**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 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.

**Revenue Recognition.** The Company recognizes revenue when all of the following exist: (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 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. Inventory includes 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.

**Income Taxes.** The Company recognizes deferred asset and liability 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 International'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 PRC 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 the US\$. Assets and liabilities of HKHTC and the PRC 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, 2013 and 2012*

Net sales for the three months ended June 30, 2013 were \$31.2 million compared to \$29.4 million for the three months ended June 30, 2012, an increase of \$1.8 million, or 6.1%. The increase was due to a \$3.1 million increase in net sales of our lithium batteries (resulting from a 32.2% increase in the volume of batteries sold and a 0.5% increase in the average selling price of such batteries) and a \$573,960 increase in revenue from our new materials business, which was partly offset by a \$1.8 million decrease in net sales of our Ni-MH batteries (resulting from an 8.1% decrease in the number of Ni-MH battery units sold and a 1.3% decrease in the average selling price of such batteries). The decrease in the number of Ni-MH battery units sold in the three months ended June 30, 2013 was primarily attributable to decreased orders from existing customers.

Cost of sales mainly consists of nickel, cobalt, lithium derived materials, labor, and overhead. Costs of sales were \$25.4 million for the three months ended June 30, 2013, as compared to \$23.4 million for the comparable period in 2012. As a percentage of net sales, cost of sales increased to 81.6% for the three months ended June 30, 2013 compared to 79.5% for the comparable period in 2012. This increase was attributable to increases in labor costs from the comparable period in 2012.



Gross profit for the three months ended June 30, 2013 was \$5.7 million, or 18.4% of net sales, compared to \$6.0 million, or 20.5% of net sales for the comparable period in 2012. 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. This decrease was attributable to increases in labor costs from the comparable period in 2012.

To cope with pressure on our gross margins we control production costs by preparing budgets for each department and comparing actual costs with our budgeted figures monthly and quarterly. Additionally, we have reorganized the Company's production structure and have focused more attention on employee training to enhance efficiency. We also intend to expand our market share by investing in greater promotion of our products in regions such as the U.S., Russia, Europe and India, and by expanding our sales team with more experienced sales personnel. We have also begun production capacity expansion for our lithium batteries business as to take advantage of the strong demand for such products globally.

Research and development expenses were approximately \$1.4 million, or 4.3% of net sales, for the three months ended June 30, 2013 as compared to approximately \$1.2 million, or 4.2% of net sales, for the comparable period in 2012, an increase of 9.5%. The increase was due to the expansion of our workforce to expand our research and development and management functions.

Selling and distribution expenses were \$1.4 million, or 4.5% of net sales, for the three months ended June 30, 2013 compared to \$1.3 million, or 4.4% of net sales, for the comparable period in 2012, an increase of 8.6%. Selling and distribution expenses increased due to the expansion of our sales force and marketing activities, such as participation in industry trade shows and international travel to promote and sell our products abroad.

General and administrative expenses were \$2.6 million, or 8.4% of net sales, for the three months ended June 30, 2013, compared to \$2.3 million, or 7.7% of net sales, for the comparable period in 2012. The increase was mainly due to the expansion of our workforce.

We experienced a loss of \$180,010 and a gain of \$153,360 on the exchange rate difference between the U.S. Dollar and the RMB, for the three months ended June 30, 2013 and 2012, respectively. The gain or loss in exchange rate difference was due to the depreciation or appreciation of the RMB relative to the U.S. Dollar over the respective periods.

We experienced a gain on derivative instruments of \$112,335 in the three months ended June 30, 2013, which included a gain of \$104,689 on settled currency forwards and a gain of \$7,646 on unsettled currency forwards, as compared to a loss of \$304,147 for the comparable period in 2012, which included a gain of \$13,345 on settled currency forwards and a loss of \$317,492 on unsettled currency forwards.

Interest expenses were \$365,147 for the three months ended June 30, 2013, as compared to approximately \$301,123 for the comparable period in 2012. The fluctuation was due to a \$9,817 increase in interest expense related to an increase in bank borrowing, and a \$54,207 decrease in capitalized interest expenses. The decrease in capitalized interest expenses was due to completion of 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 \$281,238 for the three months ended June 30, 2013, as compared to approximately \$61,185 for the comparable period in 2012, an increase of \$220,053. The increase was due to an increase in bank interest income.

During the three months ended June 30, 2013, we recorded a provision for income tax expense of \$159,110 as compared to income tax expense of \$362,941 for the comparable period in 2012. The decrease was due to the decrease in net income during the three months ended June 30, 2013.

Net income attributable to the Company (excluding net loss attributable to non-controlling interest) for the three months ended June 30, 2013 was \$109,289, compared to net income attributable to the Company (excluding net loss attributable to non-controlling interest) of \$503,714 for the comparable period in 2012.

*Six Months Ended June 30, 2013 and 2012*

Net sales for the six months ended June 30, 2013 were \$55.6 million compared to \$50.0 million for the six months ended June 30, 2012, an increase \$5.6 million, or 11.2%. The increase was due to a \$6.9 million increase in net sales of our lithium batteries (resulting from a 53.3% increase in the volume of batteries sold partially offset by a 4.0% decrease in the average selling price of such batteries) and a \$346,147 increase in revenue from our new materials business, which was partly offset by a \$1.7 million decrease in net sales of our Ni-MH batteries (resulting from a 5.1% decrease in the average selling price of Ni-MH batteries, which was partially offset by a 0.3% increase in the number of Ni-MH battery units sold). The decrease the average selling price of Ni-MH units sold in the six months ended June 30, 2013 was primarily attributable to decrease of raw material price from the comparable period in 2012.

Cost of sales mainly consists of nickel, cobalt, lithium derived materials, labor, and overhead. Costs of sales were \$45.1 million for the six months ended June 30, 2013, as compared to \$40.3 million for the comparable period in 2012. As a percentage of net sales, cost of sales increased to 81.1% for the six months ended June 30, 2013 compared to 80.6% for the comparable period in 2012. This increase was attributable to increases in labor costs from the comparable period in 2012.

Gross profit for the six months ended June 30, 2013 was \$10.5 million, or 18.9% of net sales, compared to \$9.7 million, or 19.4% of net sales, for the comparable period in 2012. 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. This decrease was attributable to increases in labor costs from the comparable period in 2012.

Research and development expenses were approximately \$2.5 million, or 4.4% of net sales, for the six months ended June 30, 2013 as compared to approximately \$2.1 million, or 4.2% of net sales, for the comparable period in 2012, an increase of 15.8%. The increase was due to the expansion of our workforce to expand our research and development and management functions.

Selling and distribution expenses were \$2.8 million, or 5.0% of net sales, for the six months ended June 30, 2013 compared to \$2.5 million, or 5.0% of net sales, for the comparable period in 2012, an increase of 12.4%. Selling and distribution expenses increased due to the expansion of our sales force and marketing activities, such as participation in industry trade shows and international travel to promote and sell our products abroad.

General and administrative expenses were \$5.4 million, or 9.8% of net sales, for the six months ended June 30, 2013, compared to \$4.3 million, or 8.6% of net sales, for the comparable period in 2012. The increase was mainly due to the expansion of our workforce.

We experienced loss of \$219,957 and gain of \$122,030 on the exchange rate difference between the U.S. Dollar and the RMB for the six months ended June 30, 2013 and 2012, respectively. The gain or loss in exchange rate difference was due to the depreciation or appreciation of the RMB relative to the U.S. Dollar over the respective periods.

We experienced a gain on derivative instruments of approximately \$222,283 in the six months ended June 30, 2013, which included a gain of \$345,483 on settled currency forwards and a loss of \$123,200 on unsettled currency forwards, as compared to a gain of \$32,956 for the comparable period in 2012, which included a gain of \$64,234 on settled currency forwards and a loss of \$31,278 on unsettled currency forwards.

Interest expenses were \$701,412 for the six months ended June 30, 2013, as compared to approximately \$313,441 for the comparable period in 2012. The fluctuation was due to a \$136,836 increase in interest expense related to an increase in bank borrowing, and a \$251,135 decrease in capitalized interest expenses. The decrease in capitalized interest expenses was due to completion of 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 \$497,387 for the six months ended June 30, 2013, as compared to approximately \$228,218 for the comparable period in 2012, an increase of \$269,169. The increase was due to an increase in bank interest income.

During the six months ended June 30, 2013, we recorded a provision for income tax expense of \$207,329 as compared to income tax expense of \$416,266 for the comparable period in 2012. The decrease was due to the net loss during the six months ended June 30, 2013.

Net Loss attributable to the Company (excluding net loss attributable to non-controlling interest) for the six months ended June 30, 2013 was \$499,591 compared to net income attributable to the Company (excluding net loss attributable to non-controlling interest) of \$506,899 for the comparable period in 2012.

### **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 PRC 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, 2013, the exchange rate of the RMB to the U.S. Dollar appreciated 1.5% from the level at the end of December 31, 2012. Future appreciation of the RMB against the U.S. Dollar would increase our costs when translated into U.S. Dollars and could adversely affect our margins unless we make sufficient offsetting sales. Conversion of RMB into foreign currencies is regulated by the People’s Bank of China through a unified floating exchange rate system. Although the PRC government has stated its intention to support the value of the RMB, there can be no assurance that such exchange rate will not continue to appreciate significantly against the U.S. Dollar. Exchange rate fluctuations may also affect the value, in U.S. Dollar terms, of our net assets. In addition, the RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. Due to the volatility of the US Dollar to our functional currency the Company put into place in 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, 2013, the Company had a series of currency forwards totaling a notional amount of \$6.0 million expiring from July 2013 to November 2013. The terms of these derivative contracts are generally for 24 months or less. Changes in the fair value of these derivative contracts are recorded in earnings to offset the impact of loss on derivative instruments. The net gains of \$222,283 and \$32,956 attributable to these activities are included in “gain of derivative instruments” for the six months ended June 30, 2013 and 2012, respectively.

### **Liquidity and Capital Resources**

We had cash and cash equivalents of approximately \$2.7 million as of June 30, 2013, as compared to \$6.6 million as of December 31, 2012. Our funds are kept in financial institutions located in the PRC, which do not provide insurance for amounts on deposit. Moreover, we are subject to the regulations of the PRC which restrict the transfer of cash from the PRC, except under certain specific circumstances. Accordingly, such funds may not be readily available to us to satisfy obligations incurred outside the PRC.

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, 2013, we had in place general banking facilities with six financial institutions aggregating \$69.0 million. The maturity of these facilities is generally less than one year. 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 contain customary affirmative and negative covenants for secured credit facilities of this type. 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, 2013, we had utilized approximately \$36.2 million under such general credit facilities and had available unused credit facilities of \$32.8 million.

For the six months ended June 30, 2013, net cash provided by operating activities was approximately \$0.2 million, as compared to \$1.6 million for the comparable period in 2012. The net cash decrease of \$1.4 million provided by operating activities is primarily attributable to, among other items, a decrease of \$1.0 million in net income, a increase of \$2.0 million in cash outflow from prepayment and a decrease of \$4.3 million in cash inflow from accounts payable, which was significantly offset by a decrease of \$4.9 million in cash outflow from accounts receivable, an decrease of \$1.1million in cash outflow from notes receivable, a decrease of \$1.0 million in cash outflow from inventories.

Net cash used in investing activities was \$7.3 million for the six months ended June 30, 2013 compared to \$9.8 million for the comparable period in 2012. The net decrease of \$2.5 million of cash used in investing activities was primarily attributable to a decrease in cash outflow from acquisition of the land use right.

Net cash provided by financing activities was \$2.9 million during the six months ended June 30, 2013, as compared to \$8.3 million for the comparable period in 2012. The net decrease of \$5.4 million in net cash provided by financing activities was primarily attributable to an increase of \$7.3 million in repayment of short-term bank loans, an increase of \$9.9 million in proceeds from long-term bank loans, an increase of \$1.0 million in repayment of long-term bank loans, an increase of \$9.9 million in repayment of notes payable, a decrease of \$0.9 million in proceeds from non-controlling interest, which was partly offset by an increase of \$9.7 million in proceeds from short-term bank loans and an increase of \$8.7 million in restricted cash, and a decrease of \$2.9 million in repayment of letters of credit.

For the six months ended June 30, 2013 and 2012, our inventory turnover was 5.1 times and 3.3 times, respectively. The average days outstanding of our accounts receivable at June 30, 2013 was 82 days, as compared to 84 days at June 30, 2012. 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 \$452,729 and \$281,355 in the three months ended June 30, 2013 and 2012, respectively, and \$823,060 and \$507,397 in the six months ended June 30, 2013 and 2012, 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 10 to 90 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 120 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**

The FASB issued ASU No. 2012-01 through ASU 2013-11, which are 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 (the “Exchange Act”), 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 Exchange Act) were effective as of June 30, 2013.

### ***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, 2013 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**

None.

### **Item 1A. Risk Factors**

Any investment in our common stock involves a high degree of risk. Investors should carefully consider the risks described in our Annual Report on Form 10-K as filed with the SEC on April 2, 2013 and all of the information contained in our public filings before deciding whether to purchase our common stock. Other than as set forth below, there have been no material revisions to the “Risk Factors” as set forth in our Annual Report on Form 10-K as filed with the SEC on April 2, 2012.

### **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**

#### ***Loan Agreement Between SZ Highpower and China Everbright Bank Co.,LTD, LongHua Branch***

On May 28, 2013, SZ Highpower entered into a comprehensive credit line agreement effective as of May 30, 2013, with China Everbright Bank Co.,LTD, LongHua Branch, which provides for a revolving line of credit of up to RMB40,000,000,000 (US\$6,471,968). SZ Highpower may withdraw the loan, in one lump sum or several times as needed, but must make a specific drawdown application on or before May 29, 2014, after which time the bank may cancel all or part of the facilities. The loan is guaranteed by our Chief Executive Officer, Dang Yu Pan and SZ Springpower.

The following constitute events of default under the loan agreement: a significant monetary policy change in the PRC; a severe financial risks occurs or is likely to occur in SZ Highpower's region; a significant change in SZ Highpower's business market; SZ Highpower's has experienced or will encounter major operational difficulties or risks; a significant change in SZ Highpower's corporate structure, such as a merger, acquisition, reorganization, separation, amalgamation or termination, which the bank believes might affect its ability to collect on the loan; SZ Highpower's refusal to accept the supervision and inspection about usage of funds and operating financial activities; SZ Highpower's change in the use of the loan proceeds without the prior consent of the bank, or misappropriation of loans, or engagement in illegal or irregular transactions; SZ Highpower provides false information or withholds important financial facts; SZ Highpower transfer of assets, retrieval of capital or denial of indebtedness; SZ Highpower's being considered a "group account" according to the "Commercial Bank Group Guidelines for Customer Credit Risk Management Business," or other relevant laws and regulations through related party transactions; SZ Highpower's violation of the contractual commitments stipulated in the agreement; the guarantor is in critical shortage of working capital or encounters a major operational difficulty, which negatively affects the guarantor's ability to guaranty the loan; any pledged object is damaged or lost, which jeopardizes the security and rights of the bank; the emergence of any other circumstance that the bank determines may affect the bank's ability to collect on the loan or harm the bank's rights and benefits; SZ Highpower's failure to perform any obligations in a specific business contract.

Upon the occurrence of an event of default, the bank may: adjust the maximum amount of the line of credit, any specific line of credit and the effective period for credit extension and/or cancel the comprehensive contract.

#### *Loan Agreement Between SZ Highpower and Bank of China Buji Sub-branch*

On May 7, 2013, SZ Highpower entered into a working capital loan contract with Bank of China, Buji Sub-branch providing for an aggregate loan of RMB20,000,000 (US\$3,235,984) to be used by SZ Highpower to purchase raw materials. The term of the loan is twelve months from the first withdrawal date. The interest rate will float and adjusts every 6 months. Upon the first withdraw and during the first floating period, the interest rate will equal the one year benchmark lending rate promulgated by the People's Bank of China, plus 10%. Upon each reset date, the interest rate will be adjusted to the one-year lending interest rate set by the People's Bank of China, plus 10% on all outstanding loan amounts. The loan is guaranteed by our Chief Executive Officer, Dang Yu Pan, and SZ Springpower. The Company's plant in Huizhou serves as collateral for this working capital loan.

The following constitute events of default under the loan agreement: SZ Highpower's failure to comply with repayment obligations under the affiliated specific credit line contract; SZ Highpower's failure to use borrowed funds according to the specified purposes; any statement made by SZ Highpower in the contract turns out to be untrue or in violation of any commitments in the affiliated specific credit line contract; SZ Highpower's failure to provide an additional guarantor as required by the affiliated specific credit line contract; SZ Highpower's experiencing significant business difficulties or risks, deteriorated financial losses or losses of assets, or other financial crisis; SZ Highpower's breach of covenants in other credit agreements with the bank or affiliated institutions of the bank; any guarantor breaches a contract or defaults under any agreement with the bank or affiliated institutions of the bank; SZ Highpower's termination of its business or engagement due to any wind-up, cancellation or bankruptcy issues; SZ Highpower's involvement or potential involvement in significant economic disputes, litigation, arbitration or assets seizure or confiscation, or its involvement in other judicial proceedings or administrative punishment proceedings that have affected or may affect its capacity to perform its obligations under the affiliated specific credit line contract; an abnormal change in any major individual investor or key management member of SZ Highpower or such a person or entity's becoming subject to investigation or restriction by the judiciary, which have or may affect SZ Highpower's performance of obligation under affiliated specific credit line contract; Bank of China's discovery of any situation that may affect the financial position or performance capacities of SZ Highpower or a guarantor after the bank's annual review of SZ Highpower's financial position and performance; SZ Highpower's failure to provide the relevant documentation acceptable to Bank of China about the inflows and outflows of large-sum and abnormal capital in capital recovery account; or SZ Highpower's being in violation of other rights and obligations under the affiliated specific credit line contract.

Upon the occurrence of an event of default, the bank may: request SZ Highpower or any guarantor to rectify the event of default within a specified time period; reduce, temporarily suspend or permanently terminate SZ Highpower's credit limit in whole or in part; temporarily suspend or permanently terminate in part or in whole SZ Highpower's application for specific credit line under the agreement; announce the immediate expiration of all the credit lines granted under the affiliated specific credit line contract as well as other contracts; terminate or release the contract, terminate or release in part or in whole any of the affiliated specific credit line contract as well as the other contracts executed between SZ Highpower and the bank; request compensation from SZ Highpower on the losses thereafter caused; hold SZ Highpower's deposit account at the bank in custody for repayment of amounts due under the contract; exercise the real rights for security; request repayment from a guarantor; or take any other procedures deemed necessary by the bank.

The information set forth above is included herewith for the purpose of providing the disclosure required under Item 1.01 and Item 2.03 of Form 8-K. The preceding summaries of the comprehensive credit line agreement and the working capital loan contract are qualified in their entirety by reference to the complete text of the agreements, which are attached hereto as Exhibits 10.1 and 10.2, respectively, and are incorporated by reference herein. You are urged to read the entire comprehensive credit line agreement and working capital loan agreement attached hereto.

## Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description of Document
10.1	Comprehensive Credit Line Contract dated May 30, 2013 by and between China Everbright Bank Co.,LTD and Shenzhen Highpower Technology Company Limited and corresponding guarantee agreements (translated to English).
10.2	Working Capital Loan Agreement dated May 7, 2013 by and between Bank of China, Buji Sub-branch and Shenzhen Highpower Technology Company Limited and corresponding guarantee agreements (translated to English).
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
101.LAB	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 12, 2013

By:           /s/ Dang Yu Pan            
Dang Yu Pan  
Its: Chairman of the Board and Chief Executive Officer (principal executive officer and duly authorized officer)

By:           /s/ Henry Sun            
Henry Sun  
Its: Chief Financial Officer (principal financial and accounting officer)



Comprehensive Credit Line Contract

## Contents

<b>Chapter one</b>	Definitions and interpretation
<b>Chapter two</b>	The maximum credit limit and Specific line of credit
<b>Chapter three</b>	The period of credit
<b>Chapter four</b>	Usage of the Maximum Credit Limits and Specific Line of Credit
<b>Chapter five</b>	The Fees
<b>Chapter six</b>	Adjustment of the Maximum Credit Limits and Specific Line of Credit
<b>Chapter seven</b>	Guarantee
<b>Chapter eight</b>	Commitment of Party B
<b>Chapter nine</b>	Commitment of Party A
<b>Chapter ten</b>	Contract
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## Comprehensive Credit Contract

Party A: SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD.  
Add: Building A1, 68 Xinxia Street, Pinghu, Longgang, Shenzhen;  
Legal Representative: Pan Dangyu  
Tel: 0755-89686236  
Fax: 0755-89686819

Party B: China Everbright Bank Shenzhen Longhua Sub-branch  
Add: First floor, No.3, 4 building, Yinquan Garden, People South Road, Longhua, Baoan  
Tel: 0755-81483044  
Fax: 0755-28138641

Pursuant to the *Commercial Banking of the People's Republic of China, Interim Measures for the management of commercial banks authorize and credit, Guidelines on the Risk Management of Credits Granted by Commercial Banks to Group clients* and other relevant laws and regulations of the State, this Contract is entered into by the Debtor (hereinafter referred to as Party A) and the Creditor (hereinafter referred to as Party B) who shall, in line with the principles of equality, honesty and credibility and on a voluntary basis, reach unanimity through consultations and abide by the terms and conditions of this Contract.

### Part 1 Definitions and interpretation

1. In this Contract, the following terms shall have the following meanings unless otherwise expressly stipulated in the contexts:

Comprehensive credit line: it means that Party B conditionally agrees to provide one type or several types of credit lines to Party A.

Specific business: it refers to the specific business operations as determined in accordance with the comprehensive credit extension of Party B to Party A. Party B will offer Party A the credit services including the loans, bank acceptances, trade finance and so on .

The maximum amount of line of credit: it refers to the sum of the maximum balance as determined in accordance with the comprehensive credit line of Party B to Party A for various specific businesses, which Party A may submit an application to Party B for use within the valid period for funding from the credit lines as stipulated in this agreement.

Specific line of credit: it refers to the debt principal for a specific business that Party A may use within the valid period for comprehensive credit line as stipulated in this agreement, or the maximum balance of financial loans available to Party A as acknowledged by Party B and therefore undertaken by Party B, which is determined within the maximum amount of line of credit.

Used line of credit: it refers to the amount sum debt principal, within the specific line of credit, for a specific business that occurs to Party A but is not settled during the valid period for comprehensive credit line as stipulated in this agreement.

Specific business contract: it refers to the corresponding contract or agreement signed by and between Party A and Party B for use of a specific line of credit.

## **Part 2 The Maximum Credit limits and Specific Line of Credit**

2. The maximum credit limits under this contract (currency exchange rates convert according to the actual foreign exchange rate ): RMB40,000,000.00

Both parties agree that this Agreement under the maximum credit limits including the outstanding business of original Comprehensive Credit Agreement (Agreement Number: \_\_\_\_\_)

3. According to the maximum credit limits, the specific line of credit as:  
Bank acceptances: the specific line of credit RMB40,000,000.00

## **Part 3 Period for Credit Line**

Provision 4. The valid period for maximum amount of credit line is 1 year: from May 30, 2013 to May 29, 2014.

The period of the specific business is determined by the specific contract, but the start date of the specific business must not exceed the effective use of the deadline of the maximum credit limits.

## **Part 4 Use of Maximum amount of line of Credit and Specific Line of Credit**

Provision 5. Within the valid period of this agreement and the maximum amount of line of credit, Party A may apply to use the specific line of credit in one application or several applications. Reviewing the credit status of Party A, Party B will sign specific credit business contracts with Party A in accordance with the credit policy of Party B and the stipulations of this agreement.

Provision 6. Requirement on recycling: During the period of the maximum credit limits, Party A can cycle the line of credit. If the debt of one specific business is paid off, the same kind of new specific business can be used except if Party B prohibited recycling.

Provision 7. Party A and Party B shall sign a specific contract with regard to a specific business, and if there is a discrepancy between the specific business contract and this agreement, the specific business contract shall supersede this agreement. For example, Party A has been identified as a customer of the Group under the "Guidelines for Risk Management of Credit business of Commercial Bank Group's customers" and other relevant laws and regulations.

#### **Part 5 The Fees**

8. According to each specific business contract, Party A and Party B should conform to the interest rate, exchange rate, fee rate and other fees charged by Party B in the specific contract.

#### **Part 6 Adjustment to Maximum Amount of Line of Credit and Specific Line of Credit**

Provision 9. When one of the following conditions occurs, Party B shall have the right to amend the maximum amount of line of credit, specific line of credit and the period for credit extension, and/or terminate this comprehensive credit line agreement:

- (1) There is a significant change of the monetary policy of the state;
- (2) A major financial risks occurs or is likely to occur in the region that Party A is located;
- (3) There is a significant change in the Party A's market of business;
- (4) Party A is experiencing or will encounter the major operational difficulties or risks;
- (5) There is significant change in the Party A's corporate structure, such as merger, acquisition and reorganization, separation, amalgamation and termination , which thought by Party B may affect the safety of loan;
- (6) Party A refused to accept the supervision and inspection about usage of funds and operating financial activities;
- (7) Without the consent of the lender loans, Party A change the original purpose of loans, misappropriation of loans or engaged in illegal or irregular transactions;
- (8) Providing false information or withheld important operations of the financial facts
- (9) Party A transfers assets, retrieve capital and deny indebtedness;
- (10) Party A is considered as a Group Account according to the "Commercial Bank Group guidelines for customer credit risk management business", or other relevant laws and regulations. Through related party transactions, potential evasion of bank debt
- (11) Party A violates the contractual commitments as stipulated in this Agreement;
- (12) the guarantor for this Agreement is in critical shortage of working capital or encounters major operational difficulty, which negatively affects the capacity as being a guarantor;
- (13) the object of pledge or the thing pledged is damaged or lost, which jeopardizes the security and right of Party B;
- (14) any event that has taken place or any circumstance that has emerged, upon the judgment of Party B, has resulted in or led to the decrease of repayment ability of Party A or the harm to the rights and benefits of Party B.

(15) Party A fails to perform any obligations in specific business contract.

Provision 10. Party A has to submit a written request for any amendments the various specific lines of credit after this agreement is signed. Party B has to give written consent before any amendments are made. The written application of amendments from Party A and the written consent from Party B shall be considered as the modification to Provision 3 of this agreement, and are treated in the same legality and enforceability of this agreement.

#### **Part 7 Guarantee**

11. To ensure that borrowing under this agreement is repaid, the following guarantees shall be adopted for this credit line agreement :

The guarantor Pan Dangyu and SPRINGPOWER TECHNOLOGY SHENZHEN CO., LTD signed “Guaranty Contract of Maximum Amount”, which number is “GB78191305002-1, GB78191305002-2” with Party B.

12. Although different forms of guarantees for the credit line are stipulated in this chapter, when a specific business transaction is occurred and if Party B considers it is necessary, Party B still has the right to request Party A to provide additional guarantee, and Party A may not refuse to provide such guarantee under the excuse that guarantee is already stipulated in this chapter.

#### **Part 8 Commitment of Party B**

Provision 13. When Party A submits an application for use of a specific line of credit in accordance with the stipulation of this agreement, Party B shall process and approve the application in a timely manner.

Provision 14. Except as otherwise provided in this Agreement, Party B can not adjust the contract which may lead adverse effects to Party A.

#### **Part 9 Commitment of Party A**

15. Party A should pay off the debt and fees on time according to the specific business credit.

Provision 16. The use of fund within a specific line of credit shall be in line with the requirements of the law and the stipulations of this agreement and the specific business contract, and shall be subject to examination by Party B at any time.

Provision 17. During the period of the credit line, Party A shall submit true financial statements, truthfully provide major domestic bank, bank account, deposit and loan balance and other relevant information reflecting its status promptly upon Party B’s request.

18. If Party A is considered as a Group Account according to the "Commercial Bank Group guidelines for customer credit risk management business", or other relevant laws and regulations. During the credit period, Party A shall promptly report to Party B about more than 10% of net assets associated with the transaction, including but not limited to:

- (1) the parties to the transaction of the association;
- (2) trading program and nature of the transaction;
- (3) the amount of the transaction or the corresponding ratio;
- (4) pricing policies (including no amount or only nominal amounts of transactions)
- (5) requirements of laws, regulations or other circumstances required by Party B.

19. During the period of credit, Party A should notice Party B in advance when providing guarantee for third party, which can not affect the ability to pay off debt.

20. During the period of credit, Party A has the following obligation:

(1) If the legal representative or legal residence, place of business, or the registered capital of a major investment in equity change, Party A shall notice to Party B within 15 days from the date of change and provide the relevant information.

(2) In the credit period, Party A involves in significant litigation, arbitration or other judicial proceedings, administrative punishment procedures, or a significant change in operating conditions and financial condition, which may affect the realization of Party B's debt, Party A shall notify Party B immediately.

(3) During the credit period, any activities of assets reorganization (such as mergers, acquisitions, discrete), or changes of business, or activities changes the organization, operation mode, or dissolution, bankruptcy application, should notify Party B two months in advance, and should pay off all the debts of Party A or perform the debt responsibilities.

Provision 21. The violation by Party A of any stipulation in this agreement or in a specific business contract will constitute a breach of contract against this agreement, and Party B will have the right to recover ahead of schedule any fund allocated under the maximum amount of line of credit, and will have the right to terminate this agreement and the specific business contract.

Any damages to Party B caused by Party A's breach of contract, Party A should assume full obligations.

## **Part 10 Validation of Agreement**

22. The agreement goes into effect from the date on which it is signed and marked with seal by the legal representatives of both Party A or Party B or the authorized agents thereof .

## **Part 11 Dispute and Settlement**

23. If there is any dispute during the enforcement of the agreement between Party A and Party B, the two parties shall first seek a resolution through friendly negotiations, and if it is necessary to take legal proceeding, either party may institute a proceeding at the court where Party B is located.

## **Part 12 Entirety of Agreement**

24. Each specific business contract that Party B signs with Party A in accordance with this agreement is a valid part of this agreement, and the entire agreement is thus construed.

25. If Party A fails to fulfill any obligation as stipulated in any specific business contract signed by and between Party A and Party B in accordance with this agreement, such failure will constitute a breach against the agreement, and Party B can therefore terminate this agreement and call back all the outstanding credit and loans.

26. Agreed by Party B, Party A can authorize all or part of the line of credit under this agreement to other units to use, and name of the unit is authorized to enter into with the relevant specific business contract signed with Party B, the specific content shall prevail by "credit line to use the power of attorney" issued by Party A and approved by Party B.

27. In the "line of credit using the power of attorney" or "buy-back guarantee amount to use the power of attorney", it is not necessary to clear the specific business of the specific line of credit under Article 3.

28. Party A in the " power of attorney for using line of credit " must clarify whether the authorized organization can be delegated or not.

29. Party A and Party B may sign additional agreement in writing with regard to an issue unsettled in this agreement, which shall be regarded as an appendix to this agreement. An appendix to this agreement is a valid part of this agreement and has the same legal force as this agreement.



### Part 13 Supplementary Provisions

30. This agreement is in triplicate, Party A has one copy, Party B has two copies, which have the same legal effect.

31. This agreement is signed on 5/28/2013 in Shenzhen.

32. The two parties agreed to notarize the contract and promise to give the contract enforceability. When the party fails to perform, do not fully comply with any legal obligations, Party B has the right to direct the people's court having jurisdiction for enforcement. Party A makes no objection to the enforcement application under the agreement.

(Not applicable)

33. If at any time, any provision of this contract in any way becomes illegitimate, invalid or unenforceable, the legality, validity or enforceability of the other provisions of this contract is not affected.

34. Under this agreement In the event of bank acceptance bill business, "bank acceptance agreement" signed by the China Everbright Bank, Shenzhen branch, the specific operations undertaken by the Branch Office, all the rights and obligations under "banker's acceptance agreement" borne by the Longhua Sub-Branch.

/s/ Pan Dangu

Party A (Stamp)

Signature of legal representative or deputy:

/s/ [COMPANY SEAL]

Party B (Stamp)

Signature of legal representative or deputy:

Guaranty Contract of Maximum Amount

Natural person as a guarantor

CHINA EVERBRIGHT BANK

## Content

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Guarantor: Pan Dangyu  
ID number:  
Address: Room 604, Floor 2, Building 34, Compound 463, Shougouling Road, Tianhe District, Guangzhou, China  
Living Address: Building A1, 68 Xinxia Street, Pinghu, Longgang, Shenzhen  
Zip code: 518111  
TEL: 89686236  
FAX: 89686819

Attorney: (Required to provide a power of attorney signed by the guarantor)  
ID number:  
Address:  
Living Address:  
Zip code:  
TEL:  
FAX:

Creditor: China Everbright Bank Shenzhen Longhua Sub-branch  
Address: First floor, No.3,4 building, yinquan garden, people south road, Longhua, Baoan  
Zip code: 518000  
Legal representative/Person in charge: Chen Wei  
Attorney:  
Managers: Yang Xiaolin  
TEL: 0755-81483044  
FAX: 0755-28138641

#### Chapter one General Principles

To ensure the performance of the "Comprehensive Credit Agreement" (hereinafter referred to as " Comprehensive Credit Agreement "), which contract number is "ZH78191305002", entered into by Shenzhen Highpower Technology Co., Ltd. (hereinafter referred to as "Debtor"), guarantor agrees to provide maximum joint responsibility guarantee, to ensure debtor pay off the coming debt in the "comprehensive credit agreement".

The creditor agrees to accept the guarantee provided by the Guarantor after examination. This contract is made in accordance with relevant laws and regulations on the basis of the principles of equality and mutual benefit for specifying the rights and obligations between the Guarantor and the Creditor.

## Chapter two Definitions

Article 1 Unless the context requires or the Contract requires, in this Contract:

Main contract: refers to the "Comprehensive Credit Line Agreement" signed by the Creditor and the Debtor and the contract or agreement for specific credit line business signed by the Creditor and the Debtor for each specific credit line business on the basis of the Comprehensive Credit Line Agreement.

Specific credit line business contract or agreement refers to the contract or agreement for single specific credit line business which is signed by the Creditor and the Debtor when the Creditor provides credit granting in domestic and foreign currencies in the forms of loan, trade financing, discount, acceptance, letters of credit, letter of guaranty, factoring, security, etc. on and off the balance sheet( hereinafter referred to as the "Specific Credit Line Business") to the Debtor.

## Chapter three The Secured Principal Debt

Article 2 The principal debt secured by the Guarantor shall be all the debts incurred under all the contracts or agreements for specific credit line business signed by the Creditor and the Debtor on the basis of the Comprehensive Credit Line Agreement. The maximum principal balance for the principal debt secured shall be the maximum line of credit as specified in the Comprehensive Credit Line Agreement, namely, RMB 40 million Yuan.

The debt of the main contract shall be determined under any of the following circumstances:

- (1) the period prescribed by the main contract for determining the debt expires;
- (2) the new debt has no possibility to occur;
- (3) the main contract is terminated by the Creditor and the Debtor, or this contract is terminated by the Creditor and the Guarantor;
- (4) the Debtor and the Guarantor are declared bankrupt or are rescinded, withdrawn, written off or dismissed;
- (5) other circumstances prescribed by the laws for determining the debt.

## Chapter four Ways of Guarantee

Article 3 The guarantee provided hereunder by the Guarantor shall be the joint liability guarantee.

## **Chapter five Scope of Guarantee**

Article 4 The secured scope hereunder shall include the debt principal, interests (including legal interests, contract interests and default interests), compound interests, handling charges, breach penalty, liquidated damages, expenses for achieving debt(including but not limited to litigation expenses, legal expenses, notary fees, execution expenses, etc.) and all the other expenses payable (hereinafter collectively referred to as the "Secured Debts") which shall be reimbursed or paid to the Creditor by the Debtor according to the main contract.

Article 5 Any certificates used by the Creditor for stating any Secured Debts or any payables hereunder shall be the conclusive evidence for proving the debtor-creditor relationship between the Debtor and the Creditor, and shall be binding on the Guarantor, unless there is obvious error.

## **Chapter six Period of Guarantee**

Article 6 The guarantee period for each specific credit line business under the Comprehensive Credit Line Agreement shall be calculated independently, it shall be two(2) years from the date of the expiration of the period for fulfilling debts by the Debtor, such period is prescribed by the contract or agreement for specific credit line business. If the contract or agreement for specific credit line business expires in advance due to legal provisions or the occurrence of pre-concerted events, then such guarantee period shall be two (2) years from the date of early expiration.

## **Chapter seven Documents Submitted by the Guarantor**

Article 7 Guarantor shall ensure that the Creditor has received the following documents which were submitted by the guarantor before the Debtor first used the credit provided under the main contract specific credit business:

1. The original contract signed by Guarantor or an agent effectively;
2. Identity documents of Guarantor;
3. Financial statements or other information which can prove the credit situation of the Guarantor;
4. Guarantor reasonably required to provide credit and other documents.

For a copy of the above documents, are subject to the Guarantor or the authorized signatory signature confirmation that the copy is true, complete and valid documents.

## Chapter 8 Representations and Warranties of Guarantor

Article 8 Guarantor make the following representations and warranties to the Creditor here:

1. Guarantor is a natural person with full civil capacity has complete qualifications and right to enter into and perform this contract, and can independently bear civil liability.
2. Guarantor has carefully read and fully understood the contract and this contract to accept the Lord contents guarantor execution and performance of this contract is voluntary, under this contract in the full meaning of true representation.
3. Guarantor to the creditor to provide all the documents are accurate, true, complete and effective, and to provide a copy of the form of documents are consistent with the original.
4. Guarantor enters into or performs this contract does not violate any other contract or agreement which guarantor involved in or applicable to the laws and regulations. The guaranty in this contract will not have any limitation.
5. To ensure that the contract legality, validity or enforceability of the Guarantor, there has been completed or will be completed all required registration, filing or notary procedures.
6. This contract is legally valid on the Guarantor and constitutes a legally binding obligation
7. There does not currently exist or will be anything involving Guarantor or surety Guarantor's financial position that will make Guarantor unable to meet its obligations under this contract and adversely affect the ability of litigation, arbitration or administrative proceedings.
8. Guarantor did not incur or cause to exist any event of default.
9. Guarantor did not incur or cause to exist any defaults.

Article 9 the above representations and warranties made by the Guarantor in the period of this contract shall remain correct, and the Guarantor will be ready by the Creditor's request for further documents.

## **Chapter nine Undertakings made by the Guarantor**

Article 10 Before the debt that be secured is paid off, the Guarantor shall comply with the following provisions:

1 The Guarantor shall immediately notify the creditor any of the following events:

- (1) the occurrence of any event of default;
- (2) any litigation, arbitration or administrative proceedings relate to the guarantor or its major operating assets;
- (3) situations that Guarantor will lose or may lose the ability to perform the responsibilities, such as a significant reduction in Guarantor's revenue, a loss of economic sources, and etc.
- (4) the Guarantor changes his/her residence address or contacts.

2. In the valid period of the contract, as long as the secured debt is not paid off, or otherwise has the written agreement of the Creditor, the Guarantor can not sell, transfer, break up or deal any of its major assets in other method.

3. In the valid period of the contract, before the secured debt is paid off, Guarantor will not have recovery or claim any right to Creditor for the amount Guarantor pays for Debtor or any other Creditor's right Debtor may have.

4. If Debtor does not pay any due secured debt on time, the Guarantor should unconditionally pay the debt to the Creditor for Debtor via the method Creditor requires within seven working days of Guarantor receiving the written payment notice from Creditor.

5. If the Guarantor does not pay any amount in this contract according to Creditor's requirements on time, the Creditor has the right to deduct the amount from any account that the Guarantor opened at the Creditor or any branch in Creditor's system without the consent of Guarantor.

6. Once Creditor requires, the Guarantor will pay or compensate the following fees and losses according to requirements immediately:

- (1) all costs and fees for fulfilling the rights of Creditor under this contract (including but not limited to attorneys' fees, litigation fees, execution fees and all other actual fees); and
- (2) any other losses caused by Guarantor's violating the agreements in this contract to Creditor.

## **Chapter ten Nature and Effectiveness of Guarantee**

Article 11 The guarantee established by this Contract shall be independent from any other guarantees obtained by the Creditor for the Secured Debts. The Creditor shall, before exercising the rights hereunder, neither perform any other guarantee he holds, whether the material guarantee or the personal guarantee, nor take any other relief measures from the Debtor or any other third party.



## **Chapter eleven Breach of Contract**

Article 12 any of the following events and items shall constitute the events of default hereunder conducted by the Guarantor:

1. Any event of default occurs under the main contract;
2. Any representation, warranty or undertaking made by the Guarantor under this contract is deemed to be incorrect or untrue;
3. Any part of the main contract is not fully legitimate and valid due to any cause, or is terminated or limited due to any reason;
4. Any significant litigation, arbitration or administrative proceedings are instituted to the Guarantor or his major operating assets;
5. The Guarantor violates his other obligations hereunder or conducts other acts which are deemed to will affect the Creditor's rights hereunder severely and adversely.

Article 13 The Creditor shall, depending on the circumstances, have the right to take one or more of the following measures after the occurrence of the above events of default:

1. To exercise the remedies for breach of contract of and under this Contract owned by the Creditor;
2. To require the Guarantor to bear the liability for guarantee in accordance with this Contract;
3. To exercise any other security interests that may be entitled to the Creditor on the Secured Debts.

## **Chapter twelve Other Provisions**

Article 14 Without the agreement of the Creditor, the Guarantor cannot transfer or dispose in whole or in part any of the obligations in this contract.

Article 15 Any grace, preferential or delay Creditor gives to Guarantor shall not affect, damage or limit the Creditor to enjoy all rights in accordance with this contract and laws and regulations; and will not be deemed as Creditor waiving rights in this Contract, and will not affect any obligations of Guarantor in this contract.

Article 16 If at any time, any provision in this contract at any aspect becomes illegal, invalid or unenforceable, will not affect the legitimacy, validity or enforceability of other provisions.

Article 17 In this contract, the Guarantor should pay all amount of the secured debt, and cannot apply for any offset suggested and with no conditions.

Article 18 If the parties hereto send notices and requirements related to this contract to each other, the notices and requirements shall be made in writing and sent to the address or fax listed in the first page of this contract. Either party changes its address or fax, shall promptly notify the other party.

Exchanges of files between two parties, if delivered by hand, the delivery is deemed to be delivered; if sent by registered letter, the file is deemed to be delivered three days after sending; if sent by fax, the file is deemed to be delivered when sent. If Guarantor sends files to Creditor, the file is deemed to be delivered when Creditor actually receives the file.

### **Chapter thirteen Applicable Law and Dispute Resolution**

Article 19 Any event in this contract or involved in this contract is applicable to the laws of PRC (excluding the laws of Hong Kong, Macao and Taiwan), and be explained by the laws of PRC (excluding the laws of Hong Kong, Macao and Taiwan).

Article 20 All disputes arising from or relating to the implementation of this contract shall be settled by both parties through friendly consultations. Where no agreement can be reached, either party can bring an action to the people's court where the Creditor is located.

### **Chapter fourteen Effectiveness, Modification and Rescission of the contract**

Article 21 This contract is entered into in force upon the date when it is signed or sealed and affixed with official seals by the legal representatives or entrusted agents of the Guarantor and the Creditor.

Article 22 Neither party may modify or terminate this contract after it is entered into in force. Where any modification or rescission is required, such modification or rescission shall be agreed by the Guarantor and the Creditor through consultations, and a written agreement shall be reached. All the provisions hereof shall remain in effect before a written agreement is reached.

#### **Chapter fifteen Appendix**

Article 23 Matters not mentioned herein, if any, shall be agreed in writing as the Appendix of this Contract by the Guarantor and the Creditor. The Appendix hereof shall form an integral part of this contract, and shall be of legally equal effect with this Contract.

Article 24 The Appendix hereof shall consist of:

- 1.
- 2.

#### **Chapter sixteen Supplementary**

Article 25 This contract is made in triplicate , one for the Guarantor and two for the Creditor, each of which shall have the same legal effect.

Article 26 This Contract was signed in Shenzhen by the guarantor and the creditor on 5/28/2013 .

Article 27 Both parties hereof agree to notarize this Contract and undertake to grant this contract enforceability. When the Debtor and the Guarantor fail to perform or fully perform their obligations, or if the Creditor achieves its debts or security rights prescribed by the laws and regulations or agreed by this Contract, the Creditor shall have the right to apply for enforcement directly from the people court with jurisdiction. The Debtor, the Guarantor and the Creditor have no opposition against the application of enforcement made in accordance with this Contract. (This clause shall be an optional clause, both parties may make the following choices in 2 of this contract. 1, To use; 2, Not to use.)

This page is intentionally left blank for the signature of both parties hereof)

Guarantor (seal):  
/S/ Pan Dangu

Creditor (seal):  
/s/ [COMPANY SEAL]

Legal Representative / CEO:  
(or Entrusted Agent )

Guaranty Contract of Maximum Amount

CHINA EVERBRIGHT BANK

## Content

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## Guaranteed Maximum Contract

Guarantor: Springpower Technology (Shenzhen) Company Limited  
Address: Bao'an District, Shenzhen  
Guanlan Dan Lake community  
Superparamagnetic Renmin Road  
Industrial Area, Building A  
Post code: 518000  
Legal representative: PanDangyu  
Entrusted Agent:  
Operated by: Sun Xun  
TEL: 0755-89686802  
FAX: 0755-89686819  
Opening Bank: Bank Of China. PingHu Branch  
Account NO.:

Creditor: China Everbright Bank CO., LTD LongHua Branch  
Address: G/F,BLK.3, 4 Yinquan Garden  
Renmin Road North, Baoan District,  
Shenzhen, Guangdong  
518000  
China

Legal representative/Person in charge: Chen Wei  
Managers: Yang Xiaolin  
TEL: 0755-81483044  
FAX: 0755-28138641

### Chapter one General Principles

To ensure the performance of the "Comprehensive Credit Agreement" (hereinafter referred to as " Comprehensive Credit Agreement" ) , which contract number is "ZH78191305002", entered into by Shenzhen Highpower Technology Co., Ltd. (hereinafter referred to as "debtor"), guarantor agrees to provide maximum joint responsibility guarantee, to ensure debtor payS off the coming debt in the "comprehensive credit agreement".

The creditor agrees to accept the guarantee provided by the Guarantor after examination. This contract is made in accordance with relevant laws and regulations on the basis of the principles of equality and mutual benefit for specifying the rights and obligations between the Guarantor and the Creditor.

## Chapter two Definitions

Article 1 Unless the context requires or the Contract requires, in this Contract:

Main contract: refers to the "Comprehensive Credit Line Agreement" signed by the Creditor and the Debtor and the contract or agreement for specific credit line business signed by the Creditor and the Debtor for each specific credit line business on the basis of the Comprehensive Credit Line Agreement.

Specific credit line business contract or agreement refers to the contract or agreement for single specific credit line business which is signed by the Creditor and the Debtor when the Creditor provides credit granting in domestic and foreign currencies in the forms of loan, trade financing, discount, acceptance, letters of credit, letter of guaranty, factoring, security, etc. on and off the balance sheet (hereinafter referred to as the "Specific Credit Line Business") to the Debtor.

## Chapter three The secured principal debt

Article 2 The principal debt secured by the guarantor shall be all the debts incurred under all the contracts or agreements for specific credit line business signed by the Creditor and the Debtor on the basis of the Comprehensive Credit Line Agreement. The maximum principal balance for the principal debt secured shall be the maximum line of credit as specified in the Comprehensive Credit Line Agreement, namely, RMB 40 million Yuan.

The debt of the main contract shall be determined under any of the following circumstances:

- (1) the period prescribed by the main contract for determining the debt expiration;
- (2) the new debt has no possibility to occur;
- (3) the main contract is terminated by the creditor and the debtor, or this contract is terminated by the Creditor and the Guarantor;
- (4) the Debtor and the Guarantor are declared bankrupt or are rescinded, withdrawn, written off or dismissed;
- (5) other circumstances prescribed by the laws for determining the debt.



Chapter four Ways of Guarantee

Article 3 The guarantee provided hereunder by the Guarantor shall be the joint liability guarantee.

Chapter five Scope of Guarantee

Article 4 The secured scope hereunder shall include the debt principal, interests (including legal interests, contract interests and default interests), compound interests, handling charges, breach penalty, liquidated damages, expenses for achieving debt (including but not limited to litigation expenses, legal expenses, notary fees, execution expenses, etc.) and all the other expenses payable (hereinafter collectively referred to as the "Secured Debts") which shall be reimbursed or paid to the Creditor by the Debtor according to the main contract.

Article 5 any certificates used by the Creditor for stating any Secured Debts or any payables hereunder shall be the conclusive evidence for proving the debtor-creditor relationship between the Debtor and the Creditor, and shall be binding on the Guarantor, unless there is obvious error.

Chapter six Period of Guarantee

Article 6 The guarantee period for each specific credit line business under the Comprehensive Credit Line Agreement shall be calculated independently, it shall be two (2) years from the date of the expiration of the period for fulfilling debts by the Debtor, such period is prescribed by the contract or agreement for specific credit line business. If the contract or agreement for specific credit line business expires in advance due to legal provisions or the occurrence of pre-concerted events, then such guarantee period shall be two (2) years from the date of early expiration.

Chapter seven Documents Submitted by the Guarantor

Article 7 Guarantor shall ensure that the creditor has received the following documents which were submitted by the guarantor before the debtor first used the credit provided under the main contract specific credit business:

1. The original contract which is signed or sealed and affixed with official seals by the legal representative or entrusted agent of the guarantor;
2. Guarantor's articles of association or the approval documentation of establishment and the latest business license of enterprise legal person by annual inspection, or certificate of legal institutions, or other documents that can prove the legal existence of guarantor;

3. financial statements or other information which can prove the credit situation of the Guarantor;
4. The resolution that Guarantor's board of directors or other internal agencies of the guarantor who have the right to decide matters of this warranty agreed the Guarantor to provide guarantee in accordance with this Contract;
5. Other documents that provided by the Guarantor with reasonable requirement of the Creditor.

In order to ensure the above documents are true, complete, valid files, they shall be stamped with official seal by the Guarantor if the documents are copies.

#### Chapter eight Representations and Warranties made by the Guarantor

Article 8 The Guarantor hereby make the following representations and warranties to the creditor:

1. The guarantor is a validly existing legal entity / other organization established in accordance with Chinese laws with independent civil capacity, and enjoy the full power, authority and rights to bear civil liability and conduct business activities with its total assets.
2. The Guarantor has sufficient power, authority and rights to sign this contract and conduct transactions under this contract, and has taken or obtained all necessary actions of legal person and other actions and agreements to authorize the execution and performance of this contract. The contract is validly signed the legal representative or agent of the Guarantor.
3. The Guarantor has carefully read and fully understood and accept the contents of the main contract and this contract. The execution and performance by the Guarantor of this contract is voluntary, and the full meaning of this contract hereunder is truly represented.
4. All the documents, materials and reports provided by the Guarantor to the creditor are accurate, complete, valid and honestly presented, and documents provided as copies are consistent with the original.
5. The Guarantor has been made to sign this contract with all the necessary government approvals and third party consents, the execution and performance of this contract does not violate the Guarantor's corporate constituent documents / approval documents (if any) and as a party to any other contract or agreement. Guaranties under this contract will not be subject to any restrictions.

6. To ensure the legality, validity or enforceability of this Contract, the guarantor has been completed or will complete all required registration, filing or notary procedures.

7. This contract is legal and valid, which has legally binding obligation to the Guarantor.

8. There is no litigation, arbitration or administrative proceedings which involving the Guarantor or its major operating assets, and will have the critical adversely affect on the guarantor's financial position or the ability to fulfill its obligations under this contract.

9. Guarantor did not occur or exist any defaults.

Article 9 the above representations and warranties made by the guarantor in the period of this contract shall remain correct, and the guarantor will be ready by the creditor's request for further documents.

#### Chapter nine Undertakings made by the Guarantor

Article 10 Before the debt that is secured is paid off, the guarantor shall comply with the following provisions:

1. The guarantor shall immediately notify the creditor any of the following events:

(1) the occurrence of any defaults;

(2) any litigation, arbitration or administrative proceedings relate to the guarantor or its major operating assets;

(3) the deterioration of guarantor's financial position , suspension of business, or is declared bankrupt, dissolution, is revoked business license / certificate of legal institutions or is revoked.

2. In the valid period of the contract, as long as the secured debt is not paid off , without the prior written consent of the creditor, the guarantor cannot make any affiliation, contracting, leasing, merger, separation, shareholding reform, or other changing arrangements of the mode of operation and ownership structure; If indeed, due to operational needs or adjustment of national policies and laws, to have affiliation, contracting, leasing, merger, separation, shareholding reform, or other changing arrangements of the mode of operation and ownership structure, the guarantor shall firstly obtain the written consent of the creditor and make a satisfactory credit arrangement of its warranty liabilities and obligations under the terms of this contract.

3. In the valid period of the contract, as long as the secured debt is not paid off , otherwise has the written agreement of the creditor, the guarantor cannot sell, transfer, break up or deal with its any major assets in other method.

4. In the valid period of the contract, before the secured debt is paid off, guarantor will not has recovery or claim right to creditor for the amount guarantor pay for debtor or any other creditor's right debtor may have.

5. In the valid period of the contract, if make any modification of registration at the department of administration for industry and commerce, guarantor should give a written notice to the creditor after the modification within ten working days of the creditor and send a copy of the relevant registration documents to the creditor.

6. If debtor not pay any due secured debt on time, the guarantor should unconditionally pay the debt to the creditor for debtor via the method creditor requires within seven working days of the creditor that guarantor receives the written payment notice of creditor.

7. If the guarantor does not pay any amount in this contract according to creditor's requirements on time, the creditor has the right to deduct the amount from any account that the guarantor opened at the creditor or any branch in creditor's system without the consent of guarantor.

8. Once creditor requires, the guarantor will pay or compensate the following fees and losses according to requirements immediately:

(1) all costs and fees for fulfilling the right of creditor in this contract (including but not limited to attorney fee, litigation fee, execution fees and all other actual fees); and

(2) any other losses caused by guarantor violating the agreements in this contract to creditor.

#### Chapter ten Nature and Effectiveness of Guarantee

Article 11 The guarantee established by this Contract shall be independent from any other guarantees obtained by the Creditor for the Secured Debts. The Creditor shall, before exercising the rights hereunder, neither perform any other guarantee he holds, whether the material guarantee or the personal guarantee, nor take any other relief measures from the Debtor or any other third party.

## Chapter eleven Breach of Contract

Article 12 Any of the following events and items shall constitute the events of default hereunder conducted by the Guarantor:

1. Any event of default occurs under the main contract;
2. Any representation, warranty or undertaking made by the Guarantor under this contract is deemed to be incorrect or untrue;
3. Any part of the main contract is not fully legitimate and valid due to any cause, or is terminated or limited due to any reason;
4. The Guarantor suspends or stops its business or enters into bankruptcy, liquidation, stoppage or other similar procedures, or the Guarantor applied for bankruptcy and liquidation or ordered to cease or suspend its business by competent authorities;
5. Any significant litigation, arbitration or administrative proceedings are instituted against the Guarantor or his major operating assets;
6. The Guarantor violates its other obligations hereunder or conducts other acts which are deemed to will affect the creditor rights hereunder severely and adversely.

Article 13 The Creditor shall, depending on the circumstances, have the right to take one or more of the following measures after the occurrence of the above events of default:

1. To exercise the remedies for breach of contract of and under this Contract owned by the Creditor;
2. To require the Guarantor to bear the liability for guarantee in accordance with this Contract;
3. To exercise any other security interests that may be entitled to the Creditor on the Secured Debts.

## Chapter twelve Other Provisions

Article 14 without the agreement of the creditor, the guarantor cannot transfer or disposition all or part of the obligations in this contract.

Article 15 any grace, preferential or delay Creditor gives to guarantor shall not affect, damage or limit the creditor enjoy all rights in accordance with this contract and laws and regulations; and will not be deemed as creditor gives up the rights in this Contract, and will not affect any obligations of guarantor in this contract.

Article 16 If at any time, any provision in this contract at any aspect becomes illegal, invalid or unenforceable, it will not affect the legitimacy, validity or enforceability of other provisions.

Article 17 In this contract, the guarantor should pay all amount of the secured debt, and cannot apply for any offset suggest and with no conditions.

Article 18 If the parties hereto send notices and requirements related to this contract to each other, the notices and requirements shall be made in writing and sent to the address or fax listed in the first page of this contract. Either party changes its address or fax, shall promptly notify the other party

Exchanges of files between two parties, if delivered by hand, the delivery is deemed to be delivered; if sent by registered letter, three days after registered is deemed to be delivered; if sent by fax, the sending time is deemed to be delivered. But if guarantor sends files to creditor, the file is deemed to be delivered when creditor actually received.

#### Chapter thirteen Applicable Law and Dispute Resolution

Article 19 This contract and any matters concerning this Contract shall be governed by and construed in accordance with the laws of PRC.

Article 20 All disputes arising from or relating to the implementation of this contract shall be settled by both parties through friendly consultations. Where no agreement can be reached, either party can bring an action to the people's court where the Creditor locates.

#### Chapter fourteen Effectiveness, Modification and Rescission of the contract

Article 21 This contract enters into force upon the date when it is signed or sealed and affixed with official seals by the legal representatives or entrusted agents of the Guarantor and the Creditor.

Article 22 Neither party may modify nor terminate this contract upon it enters into force. Where any modification or rescission is required, such modification or rescission shall be agreed by the guarantor and the creditor through consultations, and a written agreement shall be reached. All the provisions hereof shall remain in effect before a written agreement is reached.

Chapter fifteen Appendix

Article 23 Matters not mentioned herein, if any, shall be agreed in writing as the Appendix of this Contract by the guarantor and the creditor. The Appendix hereof shall form an integral part of this contract, and shall be of legally equal effect with this Contract.

Article 24 The Appendix hereof shall consist of:

- 1.
- 2.

Chapter sixteen Supplementary

Article 25 This contract is made in triplicate , one for the guarantor and two for the Creditor, each of which shall have the same legal effect.

Article 26 This Contract was signed in Shenzhen by the guarantor and the creditor on 5/28/2013.

Article 27 Both parties hereof agree to notarize this Contract and undertake to grant this contract with enforceability. When the Debtor and the guarantor fails to perform or fully perform their obligations, or if the Creditor achieves his debts or security rights prescribed by the laws and regulations or agreed by this Contract, the Creditor shall have the right to apply for enforcement directly from the people court with jurisdiction. The Debtor, the guarantor and the Creditor have no opposition against the application of enforcement made in accordance with this Contract. (This clause shall be an optional clause, both parties may make the following choices in \_\_\_ of this contract. 1, To use; 2, Not to use.)

This page is intentionally left blank for the signature of both parties hereof)

/s/ Danyu Pan

[COMPANY SEAL]

Guarantor (seal):

Legal representative

(Or Entrusted Agent)

Creditor (seal):

/s/ [COMPANY SEAL]

Legal Representative / CEO:

(or Entrusted Agent )



## Working Capital Loan Contract

Reference No. : 2013zhenzhongyinbujiezi No.00038

**Party A:** Shenzhen Highpower Technology Co., Ltd

Business License: 440307503274740

Legal Representative: Dangyu Pan

Address: Building A1, 68 Xinxia Street, Pinghu, Longgang, Shenzhen;

Postal code: 518111

Deposit A/C and financial institutions: Bank of China, Pinghu Sub-branch, Shenzhen, 744557938816

Telephone: 8968 6236; Facsimile: 8968 6298

**Party B:** Bank of China, Buji Sub-branch.

Legal Representative: Yang Yong

Address: 108, Buji Road, Buji Town, Longgang District, Shenzhen; Postal code: 518112

Telephone: 0755-2827 4825; Facsimile: 0755-2827 0847

This contract is the affiliated specific credit contract under the "Comprehensive Credit Line Contract" (Reference No.: 2013zhenzhongyinebuxiezi No. 0000099), which is signed by Shenzhen Highpower Technology Co., Ltd and Bank of China, Buji Sub-branch.

The parties agree as follow.

*Clause 1 Amount*

Party B agrees to provide the following loan:

Currency in: RMB

Amount: RMB Twenty millions only

RMB 20,000,000.00

*Clause 2 Period*

The period of the loan is 12 months starting from the first withdrawal date in part or in whole. It is Party A's obligation to withdraw funds on the date as agreed. Any late withdrawal will not result in delay/extension of repayment.

*Clause 3 Use of loan*

*Purpose of loan: Purchase of raw materials*

Party A is prohibited from changing the use of loan without Party B's written approval. The restrictions include but are not limited to changing the use of loan to fixed assets or equity investments, as well as production activities prohibited by the central governments.

*Clause 4 lending rate and interest calculations*

Lending rate is floating rate, which is reset every six months starting from the first withdrawal date. The rate resetting date is the first day of each floating period.

For each withdrawal in installments:

■ RMB floating rate

A. First withdrawal (during the first floating period) interest rate is the one-year benchmark lending interest rate, set by People's Bank of China, plus 10%;

B. On the interest resetting date, the new interest rate is the spot one-year lending interest rate, benchmarked by People's Bank of China, plus 10% on all outstanding loan amounts.

2. Interest calculation

Interest is calculated starting from the actual withdrawal date on the actual amount of money withdrawn and the number of days outstanding.

Interest calculation formula: Interest = Principal × actual number of days × daily rate.

Daily rate calculation is: daily rate = APR / 360.

3. The method of interest settlement

Interest settlement takes place on the 20th of each month, the 21st is the interest payment date.

If the final loan principal payment date is different from the interest payment date, the borrower should pay off all interest on the principal payment date.

4. Penalty interest

(1) For the loan overdue or violated use the loan purpose, penalty interest rate will apply to the loan amount that is overdue or misappropriated from the date of overdue or misappropriation until the principal and interest are paid off.

On both overdue and misappropriation of loans, a higher penalty interest rate shall be charged.

(2) If the borrower does not pay interest and/or penalty interest by the interest payment date, the interest is calculated based on Clause 3 and 4.

(3) Penalty rate

■ The penalty interest rate on floating-rate loans

According to the floating period and the method of floating as agreed in Clause 1, the penalty interest rate of the overdue loan shall be the agreed interest rate plus 50%, and the penalty interest rate of the misappropriated loan shall be the agreed interest rate plus 100%;

#### *Clause 5 Withdrawal Conditions*

Withdrawal must meet the following conditions:

1. This contract and its attachments have become effective.
2. Party A has provided guarantees requested by Party B, and the guarantee contract has become effective and has accomplished legal procedures of approval and registration.
3. Party A has provided Party B with loan documents, seals, personnel list, specimen signature, and complete the relevant evidence.
4. Party A has opened the account for fulfilling this contract requested by Party B.
5. Party A should submit written withdrawal application, documentary proof for using of loans and complete the relevant formalities for withdrawal before 5 banking days.
6. Party A has submitted resolution books and power of attorney signed by the board or other authorities to Party B.

Withdrawal can be refused by Party B if Party A has not met the above conditions, but agreed by Party B.

#### *Clause 6 Date and method of withdrawal*

1. All loans should be withdrawn in 30 days from 7<sup>th</sup> May 2013.

2. Party B has the right to refuse the withdrawal application of unused loan which is over the date of withdrawal.

*Clause 7* Payment of the loan

1. The account

The loan should be granted and paid through the account opened by Party A:

Account Name: Shenzhen Highpower Technology Co., Ltd.

Account number:

2. The way of payment

(1) The way of payment should be in accordance with laws and regulations, regulatory requirements and the contract. The way of single payment of the Loan should be approved in written withdrawal application. Party B has the right to change the way of payment or stop providing the loan if the way of payment in the application doesn't meet the requirement.

(3) Borrower makes the payment on its own.

(4) The change of payment. The way of payment should be changed when the payment, credit rating or other conditions of Party A has changed after submitting withdrawal application. Party A should provide the written change application, should resubmit the withdrawal application and documentary proof for using of loans if the sum, payment object or the use of loans has changed.

3. The specific requirements of entrusted payment

(1) Entrusted payment. Party B pay to the specified account directly which is written in this contract, including the name of account, account number and the sum of payment.

(2) To provide the transaction information. Party A should provide the account of loans, the account information of counterparty and relevant documents when entrusted payment. All document provided to Party B should be true, integral and effective, or Party B does not assume any responsibility for failed transaction, and occurred repayment obligations do not be affected.

(3) Party B's obligations under the entrusted payment

A. Party B pay to the specified account after examination and approval of Party A's commission books and other related transaction information when entrusted payment.

B. If Party B found that the proof materials and other related trading purposes material provided by Party A does not comply with this contract or the presence of other defects, Party B has the right to require Party A to supplement, replace, description or re-submit the relevant materials. Before these materials are submitted, Party B has the right to refuse the issuance and payment of the relevant amounts.

C. Party B will assume no responsibility and the generated obligations of Party A will be not affected if Party B cannot pay the loan to the counterparty in time in accordance with payment order of Party A because of the refund by opening bank of the counterparty. Party A hereby authorizes Party B to freeze the fund returned by opening bank of the counterparty. In this case, Party A shall resubmit the payment order and use proven materials and other related transaction materials.

(4) Party A shall not piecemeal way to circumvent the trustee to pay Party B.

5. Party B has right to redefine the terms of payment and loan disbursement or stop the loan if the following situations occurred:

(1) Party A violates the contract to circumvent entrusted payment of Party B by piecemeal way.

(2) Party A's credit status drops or main business profitability is not good.

(3) The use of loan is abnormal.

(4) Party A fails to provide the records and information of the loan requested by Party B timely.

(5) Party A contravenes this section to use the loan.

#### *Clause 8 Repayment*

1. Party A shall specify the following account as capital recovery account and provide the information of this account. Party B has the right to ask Party A to explain inflows and outflows of large-sum and abnormal capital, as well as monitor capital recovery account.

Account Name: Shenzhen Highpower Technology Co., Ltd.

Account number:

2. Except otherwise agreed, on the expiry date, Party A must repay all the loans under this contract.

If Party A wants to change the plan of repayment, a written application confirmed in writing by both parties jointly should be submitted in 10 banking days before the loans maturity.

3. Unless otherwise agreed, Party A has the right to decide repayment order of the principal or interest. If there are several expiring loans or overdue loans which are repaid in installment way under this contract, Party B has the right to decide the liquidation sequence of a repayment. Party B has the right to decide the priority of the repayment order if multiple contracts expire at the same time.

4. Unless otherwise agreed, Party A can repay in advance, but Party A should notice Party B in written 15 banking days advance. The amount of the first advance payment used to repay the final maturity of the loan, in reverse order to repay the loans.

5. Party A must deposit funds in the following account three banking days advance of every expiring principle with interest. Party B has the right to take the funds from the account on the expiry date.

Account Name: Shenzhen Highpower Technology Co., Ltd.

Account number:

*Clause 9 Guarantee*

1. To ensure that borrowing under this agreement is repaid, the following guarantees shall be adopted:

- 1) This contract is the main contract of Guaranty Contract of Maximum Amount (NO: 2013ZHENZHONGYINBUBAOEZI0014) signed by SPRINGPOWER TECHNOLOGY (SHENZHEN) CO., LTD. (Guarantor) and Party B. Guarantor provides the maximum amount guarantee.
- 2) This contract is the main contract of Guaranty Contract of Maximum Amount (NO: 2013ZHENZHONGYINBUBAOEZI0015) signed by DAGNYU PAN (Guarantor) And Party B. Guarantor provides the maximum amount guarantee.
- 3) This contract is the main contract of Pledge Contract of Maximum Amount (NO: 2013ZHENZHONGYINBUDIEZI0011) signed by SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD. And Party B.
- 4) This contract is the main contract of Pledge Contract of Maximum Amount (NO: 2013ZHENZHONGYINBUDIEZI0020) signed by SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD. And Party B.

2. Under certain circumstance, Party B believes that will affect the capacity for fulfilling the contract of Party A or Guarantor, or Guarantee Contracts are invalid, revoked or dissolved, or the financial position of Party A/Guarantor deteriorate or Party A/Guarantor involved in litigation issues, or other factors which might affect its repayment ability, or guarantors were found default in other contracts with Party B, or devaluation, dismiss or damage of collaterals which might cause the value of the collaterals slaked or losses, Party B reserves the right to request Party A and Party A has the obligation to add or replace the guarantor.

*Clause 10 Statement and Commitment*

1. Party A's statement:

- 1) Party A is legally register and exist with full capacity for civil rights and civil conduct;
- 2) Signing and performing the contract is the true will of Party A, Party A has been granted all legal and valid authorizations before signing the contract. The contract does not form a default for other contracts signed and performed by Party A and other legal documents. It is Party A's responsibility to complete all required approvals, registrations, permits and filings.
- 3) All document and information, financial statement, certificates and other materials provided by Party A to Party B are true, complete, accurate and effective.
- 4) All the transactions mentioned by Party A for apply specific credit line should be real and not for illegal purposes such as: money laundry.
- 5) No hidden events regarding Party A and guarantor's financial and repayment abilities.
- 6) Party A and the loan project reach the national environmental standards, not in the list of the enterprises which have problems of energy consumption and pollution, don't have the risk of energy consumption and pollution.

2. Party A's commitment:

- 1) Party A shall submit the financial statements and other relevant information regularly, including but not limited to annual, quarterly and monthly financial reports.
- 2) Any counter-guarantee agreement between the guarantors and Party A will not affect the Party B's underlying rights under this contract.
- 3) Cooperated in Party B's exam and inspection on the utilization of the loan as well as Party A's financials and operations.

- 4) Under circumstances Party A or Guarantor's capability of performing the contract might be affected, Party A should notify Party B in written in time. Those circumstances included but not limited to merger, division, decrease of capital, equity transfer, investment, a substantial increase of debt financing, a major asset and credit assignment.

Party A should notify Party B in time, when the following things occurred:

- A. changes of articles of association, the scope of business, registered capital and legal representative of Party A or Guarantor.
  - B. Any form of management mode change, including joint operation, invest and cooperate with foreigners, contract management, reorganization, restructuring, listing plan.
  - C. Party A is involved in major litigation or arbitration, or property or collateral is seized, detained or regulated, or set new guarantee in collateral.
  - D. Out of business, dissolution, liquidation, suspend business for rectification, cancellation, revocation of the business license or (be) filed for bankruptcy.
  - E. Shareholders, directors and senior management personnel suspected of serious cases or economic disputes.
  - F. Default events in other contracts.
  - G. Operating difficulties and financial situation has deteriorated.
- (5) The repayment to Party B prior to shareholders, and is comparable to other creditors of the same kind debts.
- Party A is prohibited to repay the loan to shareholders before paying off the principal and interests under the contract.
- (6) If Party A fails to pay principal, interests and fees on time in the fiscal year, any form of dividends is forbidden.
- (7) Party A cannot dispose of assets to reduce its debt paying ability and promises the total amount of external guarantee is not 1 time higher than its net assets, and the total amount of external guarantee and the amount of single guarantee shall not exceed the limitation set by the articles of association.
- (8) Except the use agreed in this contract or agreed by Party B, Party A is prohibited to transfer the loans to other accounts or related accounts.



Party A should provide documentary proof when the loan is transferred to other accounts or related accounts.

(9) Party B has the right to call the loan advanced according to the situation of capital return of Party A.

Clause 11 disclosure of the affiliated transaction inside Party A 's group

Party A is a Group customer confirmed by Party B according to the "Commercial Bank Group guidelines for customer credit risk management business"(hereinafter referred to as "guideline"). During the credit period, Party A shall promptly report to Party B about more than 10% of net assets associated with the transaction, including but not limited to: the parties to the transaction of the association; trading program and nature of the transaction; the amount of the transaction or the corresponding ratio; pricing policies (including no amount or only nominal amounts of transactions).

Under any of the following circumstances, Party B shall have the right to unilaterally decide to suspend the unused loan and recover part or all of the principal and interest of the loan in advance: use the false contracts which are signed with affiliated parties to discount or pledge at bank and to obtain bank funds or credit with notes receivable and accounts receivable without actual trade background; the occurrence of major mergers, acquisitions and reorganization which are considered by Party B may affect the loan safety; evasion or discarding of bank debts on purpose through affiliated transactions; other circumstances stipulated in article eighteenth of "guidelines".

*Clause 12 Breach of Covenants*

Each of the following events and issues constitute Party A in the event of default under the contract:

1. Party A did not perform the repayment obligation under this contract;
2. Party A has not used the credit funds according to agreed purposes, or has not paid the loan by agreed way in this contract;
3. Party A's statements in this contract are untrue or in violation with commitments made by Party A in this contract.
4. Under the circumstance defined in 2.(4) of Clause 10, Party A refused to provide additional guarantee or replacement of a new guarantor.

5. Deterioration of credit, or profitability, debt paying ability, operating ability, cash flow and other financial indicators of Party A deteriorate, breaking the contract index constraint agreed or other financial covenants.
6. Party A breaches other contracts signed with Party B or other affiliated institutions of Bank of China.
7. Guarantors breach contracts, or have default events with Party B or other affiliated institutions of Bank of China.
8. The termination of business or dissolution, revocation or bankruptcy of Party A.
9. Party A is or may be involved in major economic disputes, litigation, arbitration, or its assets were seized, detained or enforced, or investigated or punished by the judicial organ or taxation, industry and commerce administrative organs in accordance with the law, has been or may affect its ability to fulfill the obligations under this contract.
10. Abnormal change, missing, legal restriction of personal liberty and investigation by judicial authorities of Party A's major individual investors, key management personnel, which have been or may affect Party A to fulfill the obligations under this contract.
11. Party B finds the problems which may affect the borrower or guarantor's financial situation and performance capabilities when reviewing Party A's financial condition and performance capabilities every year (every year from the effective date of the contract);
12. Party A cannot provide materials to Party B to explain large and abnormal capital inflow and outflow in the account.
13. Party A is in violation with other rights and obligations agreed in this contract.

When any of the above situations occurred, Party B will perform the following in separate or all at the same time according to the specific situation:

- 1) Require Party A or Guarantor to rectify defaults within a definite time.
- 2) Reduce completely or partly, pause or terminate Party A's Credit limit.

- 3) Pause or terminate completely or partly Party A's business applications in this contract or in other contracts between Party A and Party B specific credit line under this contract. Pause or terminate completely or partly, or cancel or stop offering, paying and settling the unissued loans and unsettled trade financing.
- 4) Announce the immediate expiration on all or part of the outstanding loans, principle and interest of trade financing and other accounts payable under this contract or other contracts between Party A and Party B.
- 5) Terminate or release this contract, terminate or release contracts between Party A and Party B completely or partly.
- 6) Require compensation from Party A on the losses caused by Party A to Party B.
- 7) Deduct the fund from Party A's deposit accounts to pay off the debts to Party B under this contract. All the undue funds in the accounts were considered as acceleration of maturity. If the currency in deposit account is different from the currency of Party B's loans, the exchange rate on the date of the hold in custody will be applied.
- 8) Real rights of pledge will be executed.
- 9) Require Guarantors assume liability of guaranty.
- 10) Other necessary or probable procedures on Party B's concern.

*Clause 13 Rights reserved*

One party does not perform part or all of the rights under this contract, nor does not require the other party to perform, undertake part or all of the obligations and responsibilities, which does not mean the abdication of the right or exemption of the obligation and responsibility. Any tolerance, extension or delay from one party to another party for exercising of rights under this contract does not affect the rights one party enjoys according to this contract and laws and regulations, and does not mean the abdication of the right.

*Clause 14 Changes, Modification, Termination*

Upon negotiation and agreed by both parties, this contract can be changed and modified by written. Any of the changes and modifications should form the inseparable part of this contract.

Unless otherwise provided for in any law or regulation or stipulated between the parties, this contract would not be terminated prior to all the rights and obligations are fulfilled.

Unless otherwise provided for in any law or regulation or stipulated between the parties, the invalidation of single terms under this contract should not affect the validation of other terms under this contract.

*Clause 15 Applicable Law and Resolution for Dispute*

1. This contract is applicable to the laws of People's Republic of China.

During the performance of this contract or in connection with all disputes relating to this contract, the two parties settled through friendly consultations. If negotiation cannot reach agreement, both parties can apply to the local people's court of Party A or other affiliated institutions of Bank of China.

*Clause 16 Attachments*

The Appendix hereof and the other appendix confirmed by both parties shall form an integral part of this contract, and shall be of legally equal effect with this contract.

1. Withdrawal application;

*Clause 17 Other terms and conditions*

1. Without Party B's written approval, Party A is not allowed to transfer the rights and obligations under this contract to the 3rd Parties.
2. Party A should give the consent that Party B might somehow authorize other affiliated institution of Bank of China to perform the obligation. The performing party entitles all the rights and obligations under this contract, the performing party reserves the rights to appeal a resolution of dispute if necessary.
3. The contract has equivalent restrictions to the successors or inherits of both parties.
4. Unless otherwise agreed, the domicile addresses stated in this contract are for corresponding use; both parties should notify each other in writing about any changes of its domicile addresses.
5. The transactions under the contract based on independent interests. According to relevant laws, regulations and regulatory requirements, other parties of the transaction constitutes a connected party or associated persons, any party shall not seek to use this relationship to affect the fair of transaction.

6. The title and name of business in this contract is only for business purposes, will not be used for interpretation of the contract terms, the rights and obligations.
7. In accordance with the provisions of the relevant laws and regulations, supervision, Party B has the right to provide the information of this contract and other relevant information to the credit system of the people's Bank of China and other legally established credit information database, for organizations or individuals who have the appropriate qualifications to query and use.
8. If the drawdown date or the repayment date is in legal holidays, then it is delayed to the first working day after the holidays.
9. If required by the governing institutions, Party B might not be able to perform the obligations agreed in this contract, Party B has the right to stop or change the contract or its clauses, and Party B is exempted from punishment under this circumstance.

*Clause 18 Effective of the contract*

This contract enters into force upon the date when it is signed or sealed and affixed with official seals by the legal representatives or entrusted agents of Party A and Party B.

This contract is signed in quadruplicate, each party holds two copies, which have the equal legal effect.

/s/ [Stamp of Party A]  
Signature  
May 7, 2013

/s/ [Stamp of Party B]  
Signature  
May 7, 2013

**Maximum Amount Guaranty Contract**  
**(Applicable if guarantor is natural person)**

Reference No. : 2013zhenzhongyinbubaoezi No.0015

**Guarantor:** Dangyu Pan

Type of certification: identification card

Certification number:

Address: Building A2, Luoshan Industrial Zone, Longgang District, Shenzhen

Postal code: 518111

Telephone: 8968 6236 ; Facsimile: 8968 6298

**Creditor:** Bank of China, Buji Sub-branch.

Legal Representative: Yang Yong

Address: 108, Buji Road, Buji Town, Longgang District, Shenzhen; Postal code: 518112

Telephone: 2827 4825; Facsimile: 2827 0847

To guarantee the performing of the principle contract stated in Clause 1, both parties agree the following:

*Clause 1 Principle Contract*

1. The principle contract is "Comprehensive credit contract (2013zhenzhongyinbuexiezi No 0000099)" and its supplements signed between Creditor and Debtor, Shenzhen Highpower Technology (Shenzhen) Co., Ltd.
2. The principle contract is "Fixed asset loan contract (2013zhenzhongyinbujiezi No 00002)" and its supplements signed between Creditor and Debtor, Shenzhen Highpower Technology (Shenzhen) Co., Ltd.

*Clause 2 Principle Creditor's rights and the period*

Unless otherwise agreed, the creditor's rights under the following contracts and the creditor's rights occurred before the engagement of this contract constitutes the principle creditor's rights of this contract.

1. The creditor's right occurred under comprehensive contract starting from the date of effectiveness, and ends upon the expiration of all the specific creditor's rights.
2. The creditor's right occurred under fixed assets loan contract starting from the date of effectiveness, and ends upon the repayment date defined on the contract.

*Clause 3 The maximum amount guaranteed*

1. The maximum amount assumed guaranteed is:

Currency: Renminbi

Amount (Capital letter): One hundred and twenty million

Amount (in numbers): 120,000,000

2. The principle creditor's rights under the principle contract constitute the principle creditor's rights under this contract, which includes: loan principle, interest, compound interest, punitive interest, liquidated damage, the cost for realization of the creditor's right (includes but not limited to the announcement fee, delivery fees, appraisal fees, legal fees, travel expenses, assessment fees, auction fees, the property preservation fee, compulsory execution fee and etc), as well as the Pledgee's loss due to the breach of covenants.

The sum of the above terms constitutes the maximum amount of guaranteed for this contract.

*Clause 4 Types of guaranty*

Joint responsibility guaranty.

*Clause 5 The guarantee responsibilities*

Under the circumstance that, the debtor of principle contract failed to pay off the creditor's rights when due (on due date or early termination date), the guaranty is assumed to be responsible in accordance with this contract.

The due date in the previous sentence means the repayment date agreed in the principle contract. The early termination date is the termination date request by creditor per law or per agreements under the principle contracts.

Creditor's rights on other guarantee contracts or collateral contracts should not have an impact on the performing of this contract. Guarantor should assume responsibility under this contract rather than plea with the execution in order.

*Clause 6 The responsible period*

*The responsible period for this contract is two years after the establishment of the creditor's rights under Clause 2*

*During the period, Creditor is entitled to the right to request the assumption of responsibility from Guarantor in full or in part on one or on all creditor rights.*

*Clause 7 The duration of action*

During the period that the creditor's rights have not been paid off when due, Guarantor is assumed responsible under the joint responsibility guarantee. Creditor is entitled to claim the rights within the responsible period defined in Clause 6, the duration of action started upon the request.

*Clause 8 The relationship between this contract and the principle contract*

Upon the termination or early termination of the principle contract, Guarantor assumes guarantee responsibility on occurred debt.

The change of principle contract will not be informed to the Guarantor unless under the following circumstances, change of currency, interest rate, amount, period, or other terms which might affect the increase of the amount of the principle creditor's rights or extend the effective period of the principle contract. Guarantor remains obligated to assume the guarantee responsibility to the changed principle contract.

Under the previous stated circumstance which Guarantor's consent is required, Pledgor Guarantor is entitled to the right to reject to assume the guarantee responsibility on the incremental portion.

Under the circumstances that, Creditor provide the letter of credit, trade financing services to debtor under the principle contract, Guarantor won't be notified but assumed guarantee responsibility. It is the Creditor's responsibility to registry for the incremental business contract.

*Clause 9 Statements and Commitments*

*Guarantor's statement:*

- a) Guarantor is a natural person who possesses the capacity for civil rights and civil conducts in People's Republic of China to perform this contract. Party A can perform the civil conduct independently, no bad credit records such as debt overdue, overdue interest, malicious overdraft on credit card, no criminal records, qualified to be a legal guarantor.
- b) Guarantor has full understanding about the terms and conditions set forth in the contract. It is Guarantor's true will to provide guarantee to debtor.
- c) The establishment of this contract will not constitute a breach of covenant of any other previous contract Guarantor engaged in.
- d) All documents and information provided by Guarantor to Creditor are true, complete, accurate and effective.
- e) Guarantor is willing to cooperate in the checking and inspection of its financial conditions performed by Creditor.
- f) Guarantor did not conceal any existing liability upon the signing of the contract
- g) Inform the Creditor in time for any issues might affect Guarantor's performing capability, which including but not limited to losses of assets, transfer, donation, assume responsibility on liabilities, involved in significant law suits or disputes.
- h) If the Guarantor is married, make sure the sponsor's consent is obtained.



*Clause 10 Authorization of access to personal information*

Guarantor authorizes the access of personal information in the personal credit information database in the People's Bank of China to Creditor under the following circumstances.

1. Reference check on the Guarantor's credit status.
2. Reference check on the Guarantor's guarantee status.
3. After-loan management on the personal credit and guarantee status
4. Accept the credit line application of which the Guarantor guaranteed or to be legal representative or one of the funders.

*Clause 11 Breach of covenants*

Any of the following situations would be considered as breach of contract covenant:

1. Guarantor is in violation with the previous terms of the contract.
2. The statements of the Guarantor is untrue or in violation with its commitments
3. The occurrence of issues defined under the point 7 of clause 9 which might affect the Guarantor's financial position and performing capability.
4. In violation with other rights and obligations agreed in this contract.
5. Guarantor breaches the covenants on other credit line contracts with Party B or other affiliated institutions of Bank of China.

When any of the above mentioned situations noticed, Creditor will perform the following in separate or all at the same time:

- 1) Request Guarantor to rectify within a definite time.
- 2) Reduce, temporarily pause or permanently terminate Guarantor's Credit limit in part or in all
- 3) Temporarily pause or permanently terminate in part or in all of Guarantor's application on specific credit line under this contract.
- 4) Announce the immediate expiration on all the credit lines granted under this contract and affiliated specific credit line contracts.
- 5) Terminate or release this contract, terminate or release in part or in all of the affiliated specific credit line contracts as well as the other contracts signed between Guarantor and Creditor
- 6) Request compensation from Guarantor on the losses thereafter caused.
- 7) Assume the guarantee responsibility on Guarantors.
- 8) Other necessary procedures on Party B's concern

*Clause 12 Rights reserved*

Either party might reserve part of or all of the rights under this contract and the affiliated specific credit line contracts, this does not imply the party has surrendered or remitted the unperformed rights and obligations.

Either party might sometimes tolerate, extend or delay the execution of certain rights, this does not deem as the party has surrendered or remitted the rights.

*Clause 13 Change, Modification, Termination and Partial invalidity*

Upon negotiation and agreement by both parties, this contract can be changed and modified, the written record of the changes and modifications should form the inseparable part of this contract.

Unless ruled by law or both parties formed a separate agreement, the contract would not be terminated prior to all the rights and obligations defined are fulfilled.

Unless ruled by law or both parties formed a separate agreement, the void of single terms under this contract should no invalid other contract under this contract.

*Clause 14 Applicable Law and Resolution for Dispute*

1. This contract is entered into according with the People's Republic of China, and applicable to the law of the People's Republic of China.
2. The resolution of dispute should be appealed in Party B or other Bank of China subsidiaries defined in this contract or other affiliated contracts

*Clause 15 Attachments*

Sponsor's consent.

*Clause 16 Other terms and conditions*

1. Without Creditor's prior written approval, Guarantor is not allowed to transfer the rights and obligations under this contract to 3<sup>rd</sup> Parties.
2. Guarantor should give the consent that, Creditor might somehow authorize other affiliated institutions of Bank of China to perform the obligation. The performing party is entitled to all the rights and obligations under this contract and the affiliated credit line contracts, the performing party reserves the rights to appeal a resolution of dispute if necessary.
3. The contract has equivalent restrictions to the successors or inherits of both parties.
4. Unless otherwise agreed, the domicile addresses stated in this contract are for corresponding use; both parties should notify each other in writing about any changes of its domicile addresses.
5. The title and name of business product is for business purposes, will not used for interpretation of the contract terms and the rights and obligations.

*Clause 17 Effectiveness of the contract*

This contract is established and entered into effective upon signing or sealing by the legal representatives (or person-in-charge) of Pledgor and Pledgee or their duly authorized agents, together with sealing by the company chop.

The pledge is established upon the effectiveness of this contract.

This contract will be printed and signed in five copies, Guarantor and the debtor hold one copy each, Creditor holds three copies; each copy has the same legal effect

/s/ Dangyu Pan  
Signature of Guarantor and Sponsor  
January 10, 2013

/s/ [COMPANY SEAL]  
Stamp of Creditor (if Pledgee is a corporation)  
Signature of legal representative or authorized representative  
January 10, 2013

Attachment:

Sponsor's Consent

I, as the sponsor of Dangyu Pan, agree to assume the guarantee responsibility defined in the Guaranty Contract of the maximum amount of Guaranty with the mutual assets.

Signature of Sponsor  
January 10, 2013

## Maximum Amount Guaranty Contract

Reference No.: 2013zhenzhongyinbubaoezi No.0014

**Guarantor:** Springpower Technology (Shenzhen) Co., Ltd

Business Licences: 440306503295562

Legal Representative: Dangyu Pan

Address: Factory A, Chaoshun Industrial Zone, Renmin Road, Fumin Residential Area, Guanlan, BaoAn District,

Postal code: 518000

Deposit A/C and financial institutions: Bank of China, Pinghu Sub-branch, Shenzhen,

Telephone: 2802 9923; Facsimile: 2802 9923

**Creditor:** Bank of China, Buji Sub-branch.

Legal Representative: Yang Yong

Address: 108, Buji Road, Buji Town, Longgang District, Shenzhen; Postal code: 518112

Telephone: 2827 4825; Facsimile: 2827 0847

To guarantee the performing of the principle contract stated in Clause 1, both parties agree the following:

### *Clause 1 Principle Contract*

1. The principle contract is "Comprehensive credit contract (2013 zhenzhongyinbuxiezi No 0000099)" and its supplements signed between Creditor and Debtor, Shenzhen Highpower Technology (Shenzhen) Co., Ltd
2. The principle contract is "Fixed asset loan contract (2013zhenzhongyinbujiezi No 00002)" and its supplements signed between Creditor and Debtor, Shenzhen Highpower Technology (Shenzhen) Co., Ltd

### *Clause 2 Principle Creditor's rights and the period*

Unless otherwise agreed, the creditor's rights under the following contracts and the creditor's rights occurred before the engagement of this contract constitutes the principle creditor's rights of this contract.

1. The creditor's right occurred under comprehensive contract starting from the date of effectiveness, and ends upon the expiration of all the specific creditor's rights.
2. The creditor's right occurred under fixed assets loan contract starting from the date of effectiveness, and ends upon the repayment date defined on the contract.

*Clause 3 The maximum amount guaranteed*

1. The maximum amount assumed guaranteed is:  
Currency: Renminbi  
Amount (Capital letter): One hundred and twenty million  
Amount (in numbers): 120,000,000
2. The principle creditor's rights under the principle contract constitute the principle creditor's rights under this contract, which includes: loan principle, interest, compound interest, punitive interest, liquidated damage, the cost for realization of the creditor's right (includes but not limited to the announcement fee, delivery fees, appraisal fees, legal fees, travel expenses, assessment fees, auction fees, the property preservation fee, compulsory execution fee and etc), as well as the Pledgee's loss due to the breach of covenants.

The sum of the above terms constitutes the maximum amount of guaranteed for this contract.

*Clause 4 Types of guaranty*

Joint responsibility guaranty.

*Clause 5 The guarantee responsibilities*

Under the circumstance that, the debtor of principle contract failed to pay off the creditor's rights when due (on due date or early termination date), the guaranty is assumed to be responsible in accordance with this contract.

The due date in the previous sentence means the repayment date agreed in the principle contract. The early termination date is the termination date request by creditor per law or per agreements under the principle contracts.

Creditor's rights on other guarantee contracts or collateral contracts should not have an impact on the performing of this contract. Guarantor should assume responsibility under this contract rather than plea with the execution in order.

*Clause 6 The responsible period*

The responsible period for this contract is two years after the establishment of the creditor's rights under Clause 2

During the period, Creditor is entitled to the right to request the assumption of responsibility from Guarantor in full or in part on one or on all creditor rights.

*Clause 7 The duration of action*

During the period that the creditor's rights have not been paid off when due, Guarantor is assumed responsible under the joint responsibility guarantee. Creditor is entitled to claim the rights within the responsible period defined in Clause 6, the duration of action started upon the request.

*Clause 8 The relationship between this contract and the principle contract*

Upon the termination or early termination of the principle contract, Guarantor assumes guarantee responsibility on occurred debt.

The change of principle contract will not be informed to the Guarantor unless under the following circumstances, change of currency, interest rate, amount, period, or other terms which might affect the increase of the amount of the principle creditor's rights or extend the effective period of the principle contract. Guarantor remains obligated to assume the guarantee responsibility to the changed principle contract.

Under the previous stated circumstance which Guarantor's consent is required, Pledgor Guarantor is entitled to the right to reject to assume the guarantee responsibility on the incremental portion.

Under the circumstances that, Creditor provide the letter of credit, trade financing services to debtor under the principle contract, Guarantor won't be notified but assumed guarantee responsibility. It is the Creditor's responsibility to registry for the incremental business contract.

*Clause 9 Statements and Commitments*

*Guarantor's statement:*

1. Guarantor is legally registered and operating, and owns the full civil rights required by this contract.
2. Signing and performing the contract is the true will of Guarantor, Guarantor has been granted all necessary authorizations in effect before signing the contract. The contract does not form a default for other contracts signed and performed by Guarantor. It is Guarantor's responsibility to complete all required approvals, registrations, permits and filings.
3. All document and information provided by Guarantor to Creditor are true, complete, accurate and effective.
4. Guarantor is willing to cooperate in the check and inspection on its financial conditions performed by Creditor.
5. Guarantor did not conceal any existing liability upon the signing of the contract
6. Inform the Creditor in time for any issues might affect Guarantor's performing capability, which including but not limited to business splitting, merger and termination, disposal of major assets, restructuring, reorganization, joint venture arrangement with foreign capitals, changing of controlling shareholders or de facto control of Party A, capital reduction, liquidation, re-pledge the encumbered assets, withdrawal, bankruptcy, dissolution and involved in significant law suits.

*Clause 10 Breach of covenants*

Any of the following situations would be considered as breach of contract covenant:

1. Guarantor is in violation with the previous terms of the contract.
2. The statements of the Guarantor is untrue or in violation with its commitments
3. The occurrence of issues defined under the point 6 of clause 9 which might affect the Guarantor's financial position and performing capability.
4. Experiencing the termination of operation or bankruptcy.
5. In violation with other rights and obligations agreed in this contract.
6. Guarantor breaches the covenants on other credit line contracts with Party B or other affiliated institutions of Bank of China.

When any of the above mentioned situations noticed, Creditor will perform the following in separate or all at the same time:

- 1) Request Guarantor to rectify within a definite time.
- 2) Reduce, temporarily pause or permanently terminate Guarantor's Credit limit in part or in all
- 3) Temporarily pause or permanently terminate in part or in all of Guarantor's application on specific credit line under this contract.
- 4) Announce the immediate expiration on all the credit lines granted under this contract and affiliated specific credit line contracts.
- 5) Terminate or release this contract, terminate or release in part or in all of the affiliated specific credit line contracts as well as the other contracts signed between Guarantor and Creditor
- 6) Request compensation from Guarantor on the losses thereafter caused.
- 7) Assume the guarantee responsibility on Guarantors.
- 8) Other necessary procedures on Party B's concern

*Clause 11 Rights reserved*

Either party might reserve part of or all of the rights under this contract and the affiliated specific credit line contracts, this does not imply the party has surrendered or remitted the unperformed rights and obligations.

Either party might sometimes tolerate, extend or delay the execution of certain rights, this does not deem as the party has surrendered or remitted the rights.

*Clause 12 Change, Modification, Termination and Partial invalidity*

Upon negotiation and agreed by both parties, this contract can be changed and modified, the written record of the changes and modifications should form the inseparable part of this contract.

Unless ruled by law or both parties formed a separate agreement, the contract would not be terminated prior to all the rights and obligations defined are fulfilled.

Unless ruled by law or both parties formed a separate agreement, the void of single terms under this contract should no invalid other contract under this contract.

*Clause 13 Applicable Law and Resolution for Dispute*

1. This contract is entered into according with the People's Republic of China, and applicable to the law of the People's Republic of China.
2. The resolution of dispute should be appealed in Party B or other Bank of China subsidiaries defined in this contract or other affiliated contracts

*Clause 14 Attachments*

Not applicable

*Clause 15 Other terms and conditions*

1. Without Creditor's prior written approval, Guarantor is not allowed to transfer the rights and obligations under this contract to 3<sup>rd</sup> Parties.
2. Guarantor should give the consent that, Creditor might somehow authorize other affiliated institution of Bank of China to perform the obligation. The performing party entitles all the rights and obligations under this contract and the affiliated credit line contracts, the performing party reserves the rights to appeal a resolution of dispute if necessary.
3. The contract has equivalent restrictions to the successors or inherits of both parties.
4. Unless otherwise agreed, the domicile addresses stated in this contract are for corresponding use; both parties should notify each other in writing about any changes of its domicile addresses.
5. The title and name of business product is for business purposes, will not used for interpretation of the contract terms and the rights and obligations.

*Clause 16 Effectiveness of the contract*

This contract is established and enters into effective upon signing or sealing by the legal representatives (or person-in-charge) of Guarantor and Creditor or their duly authorized agents, together with sealing by the company chop.

The pledge is established upon the effectiveness of this contract.

This contract will be printed and signed in five copies, Guarantor and the debtor hold one copy each, Creditor holds three copies; each copy has the same legal effect

/s/ Dangyu Pan

[COMPANY SEAL]

Stamp of Guarantor (if Guarantor is a corporation)

Signature of Authorized Representative

January 10, 2013

/s/ [COMPANY SEAL]

Stamp of Creditor (if Creditor is a corporation)

Signature of legal representative or authorized representative

January 10, 2013



**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 12, 2013

/s/ Dang Yu Pan

By: Dang Yu Pan

Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

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**Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Henry 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):
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(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 12, 2013

/s/ Henry Sun

Henry Sun

Chief Financial Officer

(Principal Financial Officer)

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**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report of Highpower International, Inc. (the "Company") on Form 10-Q for the quarter ending June 30, 2013, 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 12, 2013

/s/ Henry Sun

Henry Sun  
Chief Financial Officer  
(Principal Financial and Accounting Officer)  
August 12, 2013

*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.*

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