

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 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. 000-52103**

**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 No.)*

**Building A1, 68 Xinxia Street, Pinghu,  
Longgang, Shenzhen, Guangdong  
People's Republic of China**

*(Address of principal executive offices)*

**518111**

*(Zip Code)*

*Registrant's telephone number, including area code: (86) 755-89686292*

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

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

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

None.

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

Yes  No

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

Yes  No

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 checkmark 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by

reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The aggregate market value of the registrant's issued and outstanding shares of common stock held by non-affiliates of the registrant as of June 30, 2013 (based on \$1.16 per share, the price at which the registrant's common stock was last sold on June 28, 2013) was approximately \$8.7 million.

There were 13,978,106 shares outstanding of the registrant's common stock, par value \$0.0001 per share, as of March 28, 2014. The registrant's common stock is listed on the Nasdaq Global Market under the stock symbol "HPJ."

Documents Incorporated by Reference: None.

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## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

## PART I

### ITEM 1. BUSINESS

With respect to this discussion, the terms, “the Company” “Highpower” “we,” “us,” and “our” refer to Highpower International, Inc., and its 100%-owned subsidiary Hong Kong Highpower Technology Company Limited (“HKHTC”), HKHTC’s wholly-owned subsidiaries Shenzhen Highpower Technology Company Limited (“SZ Highpower”), Highpower Energy Technology (Huizhou) Company Limited (“HZ Highpower”), Icon Energy System Company Limited (“ICON”), 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”). Highpower and its subsidiaries are collectively referred to as the “Company,” unless the context indicates otherwise.

#### Corporate Information

Highpower International, Inc. was incorporated in the state of Delaware on January 3, 2006. 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 operating subsidiaries are incorporated in the People’s Republic of China (“PRC”) and are listed below:

<u>Subsidiary</u>	<u>Principal Activities</u>
Shenzhen Highpower Technology Co., Ltd ("SZ Highpower")	Manufacturing & marketing of batteries
Springpower Technology (Shenzhen) Co., Ltd ("SZ Springpower")	Research & manufacturing of batteries
Ganzhou Highpower Technology Co., Ltd ("GZ Highpower")	Processing, marketing and research of battery materials
Icon Energy System Co., Ltd. ("ICON")	Research and production of advanced battery packs and systems
Huizhou Highpower Technology Co., Ltd ("HZ HTC")	Manufacturing & marketing of batteries

SZ Highpower manufactures 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 enable 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-tech, high-performance applications, such as laptops, digital cameras and wireless communication products. Our automated machinery allows us to process key aspects of the manufacturing process to ensure high uniformity and precision, while leaving the non-key aspects of the manufacturing process to manual labor.

We employ a broad network of salespersons in China Mainland and Hong Kong, which targets key customers by arranging in-person sales presentations and providing after-sales services. The sales staff works directly with our customers to better address their needs.

In 2010, we began a new materials business in which we buy and resell certain raw materials related to our battery manufacturing operations. This new materials business generates revenue and income and helps us understand our raw material supply chain and processing control our raw material costs and ensure that we have a steady supply of raw materials for battery manufacturing operations to reduce our reliance on external suppliers. In 2012, we initiated the construction of our Ganzhou recycling plant, which will be completed in the first quarter 2014. Consequently, our materials trading activities were reduced, so that the Company can dedicate more resources to the battery recycling operations.

## Industry

### General

Rapid advancements in electronic technology have expanded the number of battery-powered devices in recent years. As these devices have come to feature more sophisticated functions, more compact sizes and lighter weights, the sources of power that operate these products have been required to deliver increasingly higher levels of energy. This has stimulated consumer demand for higher-energy batteries capable of delivering longer service between recharges or battery replacement. In contrast to non-rechargeable batteries, after a rechargeable battery is discharged, it can be recharged and reused up to 1,000 times. Rechargeable batteries generally can be used in many non-rechargeable battery applications, as well as high energy drain applications such as electric toys, power tools, portable computers and other electronics, medical devices, and many other consumer products.

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

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

- **High capacity** - Because of the use of hydrogen as a cathode material, Ni-MH batteries have up to a 40 percent longer service life than ordinary Ni-Cad batteries of equivalent size.
- **Long cycle life** - Up to 1,000 charge/discharge cycles.
- **No memory effect** - Ni-Cad batteries suffer from a memory effect - when charging, the user must ensure that they are totally flat first, otherwise they "remember" how much charge they used to have and die much quicker. Ni-MH batteries have a negligible memory effect, making charging quicker and more convenient.
- **Performs at extreme temperatures** - Capable of operation on discharge from -20°C to 50°C (-4°F to 122°F) and charge from 0°C to 45°C (32°F to 113°F).
- **Environmentally friendly** - Zero percent cadmium or other toxic chemicals such as mercury.
- **Cost efficiency** - Rechargeable Ni-MH batteries are substantially less expensive than rechargeable lithium batteries.

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

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

- **High capacity** - Up to 100% higher energy density compared to standard nickel-cadmium batteries.
- **Low self-discharge** - Self-discharge can be less than half that of nickel-based batteries.
- **Low maintenance** - No periodic discharge is needed and there is no memory effect. Specialty cells can provide very high current to applications such as power tools.
- **Flexible form factor** - Prismatic lithium polymer batteries can be produced in a wide variety of form factors for different products and applications.

Lithium batteries also have several limitations:

- Requires protection circuit to maintain voltage and current within safe limits.
- Poses safety issues due to the more-active characteristics of its basic materials.
- Subject to aging when not in use - storage in a cool place at 40% charge reduces the aging effect.
- Transportation restrictions - shipment of larger quantities may be subject to regulatory control.
- Manufacturing cost is approximately 40% greater than nickel-cadmium.

### **China**

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

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

### **Competitive Strengths**

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

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

Our senior management team has extensive business and industry experience. Our Chairman and Chief Executive Officer, Mr. Dang Yu Pan, has over 17 years of experience in China's battery industry. Our Chief Technology Officer, Mr. Wen Liang Li, has over 23 years of research experience in advanced battery technologies and products. Additionally, other members of our senior management team have significant experience with respect to other key aspects of our operations, including product design, manufacturing, and sales and marketing.

### ***Market position***

Since the Company's inception, it has primarily focused on the research, development and manufacture of Ni-MH battery cells. We have developed significant expertise in Ni-MH battery technology and large-scale manufacturing that enables us to improve the quality of our products, reduce costs, and keep pace with evolving industry standards. Our Ni-MH rechargeable batteries have been developed to respond to a number of specific market requirements such as recyclability, high power, high energy density, long life, low cost and other important characteristics for consumer and industrial applications. They are suitable for almost all applications where high currents and deep discharges are required. Our subsidiary, SZ Springpower, is a company that specializes in the research, manufacturing and marketing of lithium rechargeable batteries and started lithium battery manufacturing operations in 2008. Our lithium battery business has been growing rapidly and we expect it will continue to grow as we gain more industry knowledge and acquire more customers. SZ Springpower has increasingly become a more important segment of our operations, with net sales of lithium batteries accounting for 43.6% of net sales in 2013, up from 33.7% of our net sales in 2012.

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

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

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

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

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

We work closely with our major customers in order to ensure high levels of customer satisfaction. To provide superior service and foster customer trust and loyalty, we offer flexible delivery methods and product feedback opportunities to our customers. The Company provides the sales representatives and marketing personnel with extensive training including necessary skills in answering questions relating to products and services, proactively introducing potential customers about our products, and promptly responding to customer inquiries.

### **Our Strategy**

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

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

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

### *Aggressively pursue distribution channels*

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

### *Expand existing and new product offerings*

Since the commencement of battery operations in 2001, we have expanded our product offerings to multiple product lines, which include in each product line batteries of varying sizes, capacities and voltages. We intend to expand our existing lines of both Ni-MH and lithium batteries for use in other applications, such as energy storage systems, hybrid-electric cars, pure electric vehicles, and devote resources to the development of higher-end and higher-performance applications requiring higher ampere hour batteries.

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

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

### **Products**

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

In 2009, we completed the construction and build-out of several production lines for the development and manufacturing of a range of lithium rechargeable batteries and products. We produce Li-ion batteries and Li-polymer batteries with hundreds of different models and specifications. Currently, we produce an average of 2,500,000 lithium battery units per month.

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

- Consumer Batteries – Relative to ordinary Ni-Cad rechargeable batteries, as well as their non-rechargeable counterparts, our Ni-MH and lithium batteries offer higher power capacity allowing for longer working time and shortened charging time during equivalent working periods. We produce A, AA and AAA sized batteries in blister packing as well as chargers and battery packs.
- Industrial Batteries – These batteries are designed for electric bikes, power tools and electric toys. They are specifically designed for high-drain discharge applications possessing low internal resistance, more power, and longer discharging time.

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

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

	Year Ended December 31,	
	2013	2012
Ni-MH Batteries	54.9%	63.8%
Lithium Batteries	43.6%	33.7%
New Materials	1.5%	2.5%
	100.0%	100.0%

## Supply of Raw Materials

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

Currently, we purchase raw materials, consisted primarily of metal materials including nickel oxide, nickel foam, metal hydride alloy and other battery components, such as membranes, from suppliers located in China and Japan. For lithium batteries, we purchase raw materials consisted primarily of LiCoO<sub>2</sub>, graphite and electrolyte. We believe that the raw materials and components used in manufacturing rechargeable batteries are available from enough sources to be able to satisfy our manufacturing needs; however, some of our materials relating to nickel and lithium are available from a limited number of suppliers. During the years ended December 31, 2013 and 2012, one major supplier accounted for 12.8% and 14.0%, respectively, of our total purchase amount. Presently, our relationships with suppliers are generally good and we expect that our suppliers will be able to meet the anticipated demand for our products in the future. Our top suppliers include Xiamen Tungsten Co. Ltd, Jinchuan Group, Baotou Santoku Battery Materials Co. Ltd and Tianjin B&M Science & Technology, Ltd.

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

## Quality Control

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

- Setting internal controls and regulations for semi-finished and finished products;
- Testing samples of raw materials from suppliers;
- Implementing sampling systems and sample files;
- Maintaining quality of equipment and instruments; and
- Articulating the responsibilities of quality control staff.

We monitor quality and reliability in accordance with the requirements of QSR, or Quality System Review, and ISO 9001 systems. We have received European Union's CE attestation, UL authentication, ISO 9001:2008 and ISO 14001 certification. We have passed stringent quality reviews and thus obtained OEM qualifications from various domestic cellular phone brand names. With strong technological capabilities and use of automated equipment for core aspects of the manufacturing process, we believe our product quality meets or even exceeds in certain key aspects international industry standards.

## Manufacturing

The manufacture of rechargeable batteries requires coordinated use of machinery and raw materials at various stages of manufacturing. We have a large-scale active production base of 51,932 square meters (not including our new 126,605 square meter facility in Huizhou to which machinery is currently being deployed), a dedicated design, sales and marketing team, and approximately 3,800 company-trained employees. We use automated machinery to process key aspects of the manufacturing process to ensure high uniformity and precision, while leaving the non-key aspects of the manufacturing process to manual labor. We intend to further improve our automated production lines and strive to continue investing in manufacturing infrastructures to further increase our manufacturing capacity, which help us control the unit cost of products.

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

In October 2008, we commenced construction of our new manufacturing factory in Huizhou, Guangdong Province, PRC, which construction was completed in 2013. The new factory will house a substantial part of the lithium battery production for the Company and be equipped with more automated production lines. The new factory's production capacity will be approximately two to three times that of our current lithium battery production facility in Shenzhen. We will begin to see material volumes out of the new facility in the first quarter of 2014. We will also continue to operate in the old rented factories located in Shenzhen upon completion of the new factory.

In July 2012, we commenced construction of our materials recycling factory in Ganzhou, Jiangxi Province, PRC, which will be completed in the first quarter 2014. We will begin initial production in the factory in the first quarter of 2014.

Our Ni-MH facility currently produces approximately 10 million to 14 million battery units per month and our lithium facility produces approximately 2.0 million to 2.5 million units per month. We are planning for moderate manufacturing capacity growth of approximately 30-40% for the lithium battery segment in the next 12 months.

### **Major Customers**

During the years ended December 31, 2013 and 2012, approximately 26.9% and 31.7% of our net sales were from our five largest customers, respectively. The percentages of net sales disclosed for each of our major customers includes sales to groups of customers under common control or that could be deemed affiliates of such major customers. During the years ended December 31, 2013 and 2012, Energizer Battery Manufacturing, Inc. accounted for 10.8% and 14.8%, respectively, of our net sales. No other customer accounted for more than 10% of net sales during 2013 and 2012. As of December 31, 2013, no single customer represented more than 10% of our accounts receivable. As of December 31, 2012, we had one major customer who represented 16% of our accounts receivable.

### **Sales and Marketing**

We have a broad sales network of approximately 120 sales and marketing staff in China and have one branch office in Hong Kong. Our sales staff in each of our offices targets key customers by arranging in-person sales presentations and providing after-sales services. Our sales staff works closely with our customers so that we can better address their needs and improve the quality and features of our products. We offer different price incentives to encourage large-volume and long-term customers.

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

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

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

	Year Ended December 31,	
	2013	2012
China (including Hong Kong)	59.3%	49.2%
Europe	21.5%	23.8%
Asia	11.2%	13.0%
North America	7.2%	13.0%
South America, Africa and Others	0.8%	1.0%
Total	100.0%	100.0%

While the largest portion of our sales are made to customers in China Mainland and Hong Kong, our battery products are integrated in various devices and end-user products and distributed worldwide, with approximately 59.3% of our products distributed to China Mainland and Hong Kong, 21.5% to Europe, 7.2% to the United States, and 12.0% to other markets in 2013.

We mainly engage in marketing activities such as attending industry-specific conferences and exhibitions to promote our products and brand name. We believe these activities help in promoting our products and brand name among key industry participants.

### Research and Development

To enhance our product quality, reduce cost, and keep pace with technological advances and evolving market trends, we have established an advanced research and development center. Our research and development center is not only focused on enhancing our Ni-MH and Lithium-based technologies by developing new products and improving the performance of our current products, but also seeks to develop alternative technologies. Our research and development center is currently staffed with over 300 research and development technicians who overlook our techniques department, product development department, material analysis lab, and performance testing lab. These departments work together to research new material and techniques, test battery performance, inspect products and to test performance of machines used in the manufacturing process.

For the years ended December 31, 2013 and 2012, we expended \$5,711,269 and \$4,611,054, respectively, in research and development.

#### *Strategic Partnership with Freudenberg Nonwovens*

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

### Competition

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

## **Seasonality**

The first quarter of each fiscal year tends to be our slow season due to the Chinese New Year holidays. Our factories and operations usually shut down for 1-2 weeks during this time, resulting in lower sales during the first quarter.

## **Intellectual Property**

We rely on a combination of patent and trade secret protection and other unpatented proprietary information to protect our intellectual property rights and to maintain and enhance our competitiveness in the battery industry. We currently hold 117 patents in China and have 50 patent applications pending in China. We also have two registered trademarks in China, which include “HFR” and its Chinese equivalent.

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

## **PRC Government Regulations**

### ***Business License***

Any company that conducts business in the PRC must have a business license that covers the scope of the business in which such company is engaged. We conduct our business through our operating subsidiaries, SZ Highpower, SZ Springpower, GZ Highpower, HZ HTC and ICON, and each of our operating subsidiaries holds a business license that covers its present business. Prior to expanding our business beyond the scope covered by our business licenses, we are required to apply and receive approvals from the relevant PRC authorities (if applicable, based on the new business in which we intend to engage) and conduct modification registration formalities with the competent administration of industry and commerce. Companies that operate outside the scope of their licenses can be subjected to a fine of not more than RMB20,000, if such operations do not violate the PRC Criminal Law, or a fine of not less than RMB20,000 but no more than RMB200,000 if such operations violate the PRC Criminal Law, or a fine of not less than RMB50,000 but not more than RMB500,000 if the such operations harm human health, have serious hidden hazards to safety, threaten public safety or destroy environmental resources. Other penalties can include disgorgement of income and being ordered to cease operations.

### ***Environmental Regulations***

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

We constructed our manufacturing facilities with the PRC’s environmental laws and requirements in mind. We currently outsource the disposal of solid waste to a third party-contractor. In 2013, we renewed our environmental permit, which expired in December 2013, from the Shenzhen Environment Protection Bureau Longgang Bureau covering our manufacturing operations and providing for an annual output limit of Ni-MH rechargeable batteries. Our new permit is in the process of being renewed. If we fail to comply with the provisions of the renewed permit, we could be subject to fines, criminal charges or other sanctions by regulators, including the suspension or termination of our manufacturing operations.

Our operating subsidiaries have received certifications from the relevant PRC government agencies in charge of environmental protection, which indicate that their business operations are in material compliance with the relevant PRC environmental laws and regulations. We have committed significant attention and efforts to quality and environmental protection during our production process. In November 2010, we received a Clean Production Award from the Guangdong Economic and Information Commission and Environmental Bureau. We are not currently subject to any pending actions alleging any violations of applicable PRC environmental laws. We do not believe the existence of these environmental laws, as currently written and interpreted, will materially hinder or adversely affect our business operations; however, there can be no assurances of future events or changes in laws, or the interpretation of laws, governing our industry. Failure to comply with PRC environmental protection laws and regulations may subject us to fines up to RMB1,000,000, the exact amount of which is determined on a case by case basis, or disrupt our operations and the construction of our new facility, result in the shutdown of our operations temporarily or permanently, which may materially and adversely affect our business, results of operations and financial condition.

During the year ended December 31, 2013, we expended approximately \$10.815 related to our compliance with environmental regulations.

### ***Patent Protection in China***

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

- Convention establishing the World Intellectual Property Organization (WIPO Convention) (June 4, 1980);
- Paris Convention for the Protection of Industrial Property (March 19, 1985);
- Patent Cooperation Treaty (January 1, 1994); and
- The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) (November 11, 2001).

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

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

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

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

PRC law defines patent infringement as the exploitation of a patent without the authorization of the patent holder. A patent holder who believes his patent is being infringed may file a civil suit or file a complaint with a PRC local Intellectual Property Administrative Authority, which may order the infringer to stop the infringing acts. Preliminary injunction may be issued by the People's Court upon the patentee's or the interested parties' request before instituting any legal proceedings or during the proceedings. Evidence preservation and property preservation measures are also available both before and during the litigation. Damages in the case of patent infringement is calculated as either the loss suffered by the patent holder arising from the infringement or the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be reasonably determined in an amount ranging from one to more times of the license fee under a contractual license. The infringing party may be also fined by Administration of Patent Management in an amount of up to three times the unlawful income earned by such infringing party. If there is no unlawful income so earned, the infringing party may be fined in an amount of up to RMB500,000, or approximately \$81,981.

### ***Product Liability and Consumers Protection***

Product liability claims may arise if the products sold have any harmful effect on the consumers. The injured party may make a claim for damages or compensation. The General Principles of the Civil Law of the PRC, which became effective in January 1987, state that manufacturers and sellers of defective products causing property damage or injury shall incur civil liabilities for such damage or injuries.

The Product Quality Law of the PRC was enacted in 1993 and amended in 2000 to strengthen the quality control of products and protect consumers' rights and interests. Under this law, manufacturers and distributors who produce or sell defective products may be subject to confiscation of earnings from such sales, revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liability.

The Law of the PRC on the Protection of the Rights and Interests of Consumers was promulgated on October 31, 1993 and became effective on January 1, 1994 to protect consumers' rights when they purchase or use goods or services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers.

The Tort Law of the PRC effective on July 1, 2010 requires that when the product defect endangers people's life or property, the injured party may hold the producer or the seller liable in tort and require that it remove obstacles, eliminate danger, or take other action. The Tort Law also requires that when a product is found to be defective after it is put into circulation, the producer and the seller shall give timely warnings, recall the defective product, or take other remedial measures.

### ***Employment Laws***

We are subject to laws and regulations governing our relationship with our employees, including: wage and hour requirements, working and safety conditions, and social insurance, housing funds and other welfare. These include local labor laws and regulations, which may require substantial resources for compliance.

China's National Labor Law, which became effective on January 1, 1995, and China's National Labor Contract Law, which became effective on January 1, 2008, permit workers in both state and private enterprises in China to bargain collectively. The National Labor Law and the National Labor Contract Law provide for collective contracts to be developed through collaboration between the labor union (or worker representatives in the absence of a union) and management that specify such matters as working conditions, wage scales, and hours of work. The laws also permit workers and employers in all types of enterprises to sign individual contracts, which are to be drawn up in accordance with the collective contract. The National Labor Contract Law has enhanced rights for the nation's workers, including permitting open-ended labor contracts and severance payments. The legislation requires employers to provide written contracts to their workers, restricts the use of temporary labor and makes it harder for employers to lay off employees. It also requires that employees with fixed-term contracts be entitled to an indefinite-term contract after a fixed-term contract is renewed once or the employee has worked for the employer for a consecutive ten-year period.

### ***Tax***

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

### ***Foreign Currency Exchange***

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations promulgated by the State Council, as amended on August 5, 2008, or the Foreign Exchange Regulations. Under the Foreign Exchange Regulations, the Renminbi is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, however, is still subject to the approval of the PRC State Administration of Foreign Exchange, or SAFE. Foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, the SAFE and the State Reform and Development Commission.

### ***Dividend Distributions***

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

### ***Foreign Ownership of PRC Operating Subsidiaries***

The establishment, approval and registered capital requirement matters of wholly foreign-owned enterprises, such as our PRC subsidiaries, SZ Highpower, SZ Springpower, HZ Highpower, HZ HTC and ICON, are regulated by the Wholly Foreign-owned Enterprise Law of the PRC promulgated and effective on April 12, 1986, as amended on October 31, 2000, and the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC effective on December 12, 1990, as amended in 2001. The procedures of establishing SZ Highpower, SZ Springpower, HZ Highpower, HZ HTC and ICON as wholly foreign-owned enterprises complied with such law and regulation.

Investment activities in the PRC by foreign investors are principally governed by the Guidance Catalogue of Industries for Foreign Investment, or the Catalogue, which was promulgated and is amended from time to time by the Ministry of Commerce and the National Development and Reform Commission. The Catalogue divides industries into three categories: encouraged, restricted and prohibited. An industry not listed in the Catalogue is generally open to foreign investment unless it is specifically restricted by other PRC regulations. In addition, the establishment of wholly foreign-owned enterprises is generally permitted in most industries except for the restricted industries which are listed in the Catalogue or restricted by other government regulations (which are subject to governmental approvals) and industries prohibited from foreign investments. Pursuant to the currently effective Catalogue (2007 version) and other PRC regulations, the business scope of SZ Highpower, SZ Springpower, HZ Highpower, GZ Highpower, HZ HTC and ICON as indicated on their business licenses does not fall within the restricted or prohibited industries and is not restricted by other PRC regulations and, therefore, HKHTC is permitted to invest in SZ Highpower, SZ Springpower, HZ Highpower and ICON in the form of a wholly foreign-owned enterprise.

### **Employees**

On December 31, 2013, we had approximately 3,800 employees, all of whom were employed full-time. There are no collective bargaining contracts covering any of our employees. We have not experienced any work stoppages and consider our relations with employees to be good.

## ITEM 1A. RISK FACTORS

Any investment in our common stock involves a high degree of risk. Potential investors should carefully consider the material risks described below and all of the information contained in this Form 10-K before deciding whether to purchase any of our securities. Our business, financial condition or results of operations could be materially adversely affected by these risks if any of them actually occur. The trading price of our shares of common stock listed on the NASDAQ Global Market could decline due to any of these risks, and an investor may lose all or part of his investment. Some of these factors have affected our financial condition and operating results in the past or are currently affecting us. This report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced described below and elsewhere in this Form 10-K.

### RISKS RELATED TO OUR OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

We have historically depended on a limited number of customers for a significant portion of our net sales. Our top five customers accounted for approximately 26.9% and 31.7% of our net sales for the years ended December 31, 2013 and 2012, respectively. One customer, Energizer Battery Manufacturing, Inc., accounted for 10.8% and 14.8% of our net sales for the years ended December 31, 2013 and 2012, respectively. We anticipate that a limited number of customers will continue to contribute to a significant portion of our net sales in the future. Maintaining the relationships with these significant customers is vital to the expansion and success of our business, as the loss of a major customer could expose us to risk of substantial losses. Our sales and revenue could decline and our results of operations could be materially adversely affected if one or more of these significant customers stops or reduces its purchasing of our products, or if we fail to expand our customer base for our products.

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

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

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

A substantial portion of our working capital consists of accounts receivable from customers. No customer represented more than of 10% of our accounts receivable as of December 31, 2013. If customers responsible for a significant amount of accounts receivable were to become insolvent or otherwise unable to pay for products and services, or to make payments in a timely manner, our business, results of operations or financial condition could be materially adversely affected. An economic or industry downturn could materially adversely affect the servicing of these accounts receivable, which could result in longer payment cycles, increased collection costs and defaults in excess of management's expectations. A significant deterioration in our ability to collect on accounts receivable could also impact the cost or availability of financing available to us.

**A change in our product mix may cause our results of operations to differ substantially from the anticipated results in any particular period.**

Our overall profitability may not meet expectations if our products, customers or geographic mix are substantially different than anticipated. Our profit margins vary among our battery and new materials products, our customers and the geographic markets in which we sell our products. Consequently, if our mix of any of these is substantially different from what is anticipated in any particular period, our profitability could be lower than anticipated.

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

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

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

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

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

Our principal raw material is nickel, which is available from a limited number of suppliers in China. The price of nickel was volatile during 2012 and 2013 and could be volatile again. The price of nickel decreased 12% from January 2012 to December 2012 and 20% from January 2013 to December 2013. The prices of nickel and other raw materials used to make our batteries increase and decrease due to factors beyond our control, including general economic conditions, domestic and worldwide demand, labor costs or problems, competition, import duties, tariffs, energy costs, currency exchange rates and those other factors described under "Certain disruptions in supply of and changes in the competitive environment for raw materials integral to our products may adversely affect our profitability." In an environment of increasing prices for nickel and other raw materials, competitive conditions may impact how much of the price increases we can pass on to our customers and to the extent we are unable to pass on future price increases in our raw materials to our customers, our financial results could be adversely affected.

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

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

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

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

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

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

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

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

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

The global economy experienced a pronounced economic downturn in previous years. Global financial markets have and may in the future experience disruptions, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability. There is no assurance that there will not be deterioration in the global economy in the future, the global financial markets and consumer confidence. If economic conditions deteriorate, our business and results of operations could be materially and adversely affected.

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

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

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

**Maintaining and expanding our manufacturing operations requires significant capital expenditures, and our inability or failure to maintain and expand our operations would have a material adverse impact on our market share and ability to generate revenue.**

We had capital expenditures of approximately \$20.0 million and \$13.0 million in the years ended December 31, 2013 and 2012, respectively. We may incur significant additional capital expenditures as a result of our expansion of our operations into our new production factory, as well as unanticipated events, regulatory changes and other events that impact our business. If we are unable or fail to adequately maintain our manufacturing capacity or quality control processes or adequately expand our production capabilities, we could lose customers and there could be a material adverse impact on our market share and our ability to generate revenue.

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

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

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

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

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

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

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

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

To protect the reputation of our products, we have sought to file or register intellectual property, as appropriate, in the PRC where we have our primary business presence. As of December 31, 2013, we have registered two trademarks as used on our battery products, one in English and the other in its Chinese equivalent. Our products are currently sold under these trademarks in the PRC, and we plan to expand our products to other international markets. There is no assurance that there will not be any infringement of our brand name or other registered trademarks or counterfeiting of our products in the future, in China or elsewhere. Should any such infringement and/or counterfeiting occur, our reputation and business may be adversely affected. We may also incur significant expenses and substantial amounts of time and effort to enforce our trademark rights in the future. Such diversion of our resources may adversely affect our existing business and future expansion plans.

As of December 31, 2013, we held 117 Chinese patents and had 50 Chinese patent applications pending. Additionally, we have licensed patented technology from Ovonic Battery Company, Inc. related to the manufacture of Ni-MH batteries. We believe that obtaining patents and enforcing other proprietary protections for our technologies and products have been and will continue to be very important in enabling us to compete effectively. However, there can be no assurance that our pending patent applications will issue, or that we will be able to obtain any new patents, in China or elsewhere, or that our or our licensors' patents and proprietary rights will not be challenged or circumvented, or that these patents will provide us with any meaningful competitive advantages. Furthermore, there can be no assurance that others will not independently develop similar products or will not design around any patents that have been or may be issued to us or our licensors. Failure to obtain patents in certain foreign countries may materially adversely affect our ability to compete effectively in those international markets. If a sufficiently broad patent were to be issued from a competing application in China or elsewhere, it could have a material adverse effect upon our intellectual property position in that particular market.

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

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

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

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

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

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

Any significant growth in the market for our products or our entry into new markets may require an expansion of our employee base for managerial, operational, financial, and other purposes. As of December 31, 2013, we had approximately 3,800 full-time employees. During any growth, we may face problems related to our operational and financial systems and controls, including quality control and delivery and service capacities. We would also need to continue to expand, train and manage our employee base. Continued future growth will impose significant added responsibilities upon the members of management to identify, recruit, maintain, integrate, and motivate new employees.

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

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

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

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

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

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

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

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

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

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

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

**We have been relying on bank facilities to finance our expansion of new plants, which increased our debt asset ratio. We may not have sufficient cash to meet our payment obligations.**

In 2013, we completed the construction of our large scale lithium battery production facility in Huizhou. The Company has been leveraging from various Chinese banks to fund our expansion to meet the demand from the fast growing lithium battery market in mobile and portable consumer devices, vehicles of various sizes, and energy storage systems. The management of the Company has taken and will take a number of actions and will continue to address our high debt level situation in order to restore the Company to a sound financial position with an appropriate business strategy going forward. These actions can include market more higher-margined lithium battery products and systems; control cost in operating expenses, and improve management efficiency; and introduce strategic investment. If we are not successful in implementing these actions, we may not have sufficient cash to meet our payment obligations.

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

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

- Vulnerability of our business to a general economic downturn in China;
- Fluctuation and unpredictability of costs related to the raw materials used to manufacture our products;
- Seasonality of our business;
- Changes in the laws of the PRC that affect our operations;
- Competition from our competitors; and
- Our ability to obtain necessary government certifications and/or licenses to conduct our business.

**Our stock price may be negatively affected if we become subject to the recent scrutiny, criticism and negative publicity involving U.S. listed Chinese companies.**

Recently, U.S. public companies that have substantially all of their operations in China, particularly companies like us which have completed share exchanges or reverse merger transactions, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S.-listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to shareholder lawsuits and SEC enforcement actions, and are conducting internal and external investigations into the allegations. It is not clear what effect this sector-wide scrutiny, criticism and negative publicity will have on our Company, our business and our stock price. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our company. This situation will be costly and time consuming and distract our management from growing our company. If such allegations are not proven to be groundless, our company and business operations will be severely negatively affected and your investment in our stock could be rendered worthless.

**The disclosures in our reports and other filings with the SEC and our other public pronouncements are not subject to the scrutiny of any regulatory bodies in the PRC. Accordingly, our public disclosure should be reviewed in light of the fact that no governmental agency that is located in the PRC where substantially all of our operations are located has conducted any due diligence on our operations or reviewed or cleared any of our disclosures.**

We are regulated by the SEC and our reports and other filings with the SEC are subject to SEC review in accordance with the rules and regulations promulgated by the SEC under the Securities Act and the Exchange Act. Unlike public reporting companies whose operations are located primarily in the United States, however, substantially all of our operations are located in China. Because substantially all of our operations and business take place in China, it may be more difficult for the staff of the SEC to overcome the geographic and cultural obstacles that are present when reviewing our disclosures. These same obstacles are not present for similar companies whose operations or business take place entirely or primarily in the United States. Furthermore, our SEC reports and other disclosures and public pronouncements are not subject to the review or scrutiny of any PRC regulatory authority. For example, the disclosure in our SEC reports and other filings are not subject to the review of China Securities Regulatory Commission, a PRC regulator that is tasked with oversight of the capital markets in China. Accordingly, you should review our SEC reports, filings and our other public pronouncements with the understanding that no local regulator has done any due diligence on our company and with the understanding that none of our SEC reports, other filings or any of our other public pronouncements has been reviewed or otherwise been scrutinized by any local regulator.

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

**Substantially all of our assets are located in the PRC and substantially all of our revenues are derived from our operations in China, and changes in the political and economic policies of the PRC government could have a significant impact upon the business we may be able to conduct in the PRC and accordingly on the results of our operations and financial condition.**

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

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

The PRC's legal system is a civil law system based on written statutes. Unlike the common law system prevalent in the United States, decided legal cases have little value as precedent in China. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to, governmental approvals required for conducting business and investments, laws and regulations governing the battery industry, national security-related laws and regulations and export/import laws and regulations, as well as commercial, antitrust, patent, product liability, environmental laws and regulations, consumer protection, and financial and business taxation laws and regulations.

The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

Our principal operating subsidiaries, SZ Highpower and SZ Springpower are considered foreign invested enterprises under PRC laws, and as a result are required to comply with PRC laws and regulations, including laws and regulations specifically governing the activities and conduct of foreign invested enterprises. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our businesses. If the relevant authorities find us in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- Levying fines;
- Revoking our business license, other licenses or authorities;
- Requiring that we restructure our ownership or operations; and
- Requiring that we discontinue any portion or all of our business.

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

Our principal operating subsidiaries, SZ Highpower and ICON, are wholly foreign-owned enterprises, commonly known as WFOEs. A WFOE can only conduct business within its approved business scope, which appears on the business license since its inception. Our license permits us to design, manufacture, sell and market battery products throughout the PRC. Any amendment to the scope of our business requires further application and government approval. Prior to expanding our business and engaging in activities that are not covered by our current business licenses, we are required to apply and receive approval from the relevant PRC government authorities. In order for us to expand business beyond the scope of our license, we will be required to enter into a negotiation with the authorities for the approval to expand the scope of our business. PRC authorities, which have discretion over business licenses, may reject our request to expand the scope of our business licenses to include our planned areas of expansion. We will be prohibited from engaging in any activities that the PRC authorities do not approve in our expanded business licenses. Companies that operate outside the scope of their licenses can be subjected to fines, disgorgement of income and ordered to cease operations. Our business and results of operations may be materially and adversely affected if we are unable to obtain the necessary government approval for expanded business licenses that cover any areas in which we wish to expand.

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

We are subject to various environmental laws and regulations in China that require us to obtain environmental permits for our battery manufacturing operations. Our current environmental permit from the Shenzhen Environment Protection Bureau Longgang Sub-bureau (the "Bureau") covering our manufacturing operations expires on December 31, 2013. Historically, under a previous permit which expired in September 2007, we substantially exceeded the approved annual output limit of Ni-MH rechargeable batteries set forth in the permit. Although we do not currently exceed the approved annual output limits under the new permit, we cannot guarantee that this will continue to be the case. Additionally, our current permit does not cover one of our existing premises at our manufacturing facility. If we fail to comply with the provisions of our permit, we could be subject to fines, criminal charges or other sanctions by regulators, including the suspension or termination of our manufacturing operations.

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

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

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

- Regulatory penalties, fines and legal liabilities;
- Suspension of production;
- Alteration of our fabrication, assembly and test processes; and

- Curtailment of our operations or sales.

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

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

The PRC State Administration of Foreign Exchange, or “SAFE,” issued a public notice in November 2005, known as Circular 75, concerning the use of offshore holding companies in mergers and acquisitions in China. The public notice provides that if an offshore company controlled by PRC residents intends to acquire a PRC company, such acquisition will be subject to registration with the relevant foreign exchange authorities. The public notice also suggests that registration with the relevant foreign exchange authorities is required for any sale or transfer by the PRC residents of shares in an offshore holding company that owns an onshore company. The PRC residents must each submit a registration form to the local SAFE branch with respect to their ownership interests in the offshore company, and must also file an amendment to such registration if the offshore company experiences material events, such as changes in the share capital, share transfer, mergers and acquisitions, spin-off transactions or use of assets in China to guarantee offshore obligations. If any PRC resident stockholder of an offshore holding company fails to make the required SAFE registration and amended registration, the onshore PRC subsidiaries of that offshore company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore entity. In May 2011, the SAFE promulgated new operational rules, known as Notice 19, for the implementation of Circular 75. Failure to comply with the SAFE registration and amendment requirements of Circular 75, as applied by SAFE in accordance with Notice 19 could result in liability under PRC laws for evasion of applicable foreign exchange restrictions. Most of our PRC resident stockholders, as defined in the SAFE notice, have not registered with the relevant branch of SAFE, as currently required, in connection with their former ownership of equity interests in HKHTC. Because of uncertainty of how the SAFE notice will be further interpreted and enforced, we cannot be sure how it will affect our business operations or future plans. For example, our subsidiaries’ ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with the SAFE notice by our PRC resident beneficial holders. Failure by our PRC resident beneficial holders could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries’ ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

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

Among other things, the Revised M&A Regulations include provisions that require that an offshore special purpose vehicle, or SPV, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals must obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings. Highpower's PRC counsel, ZhongLun Law Firm has advised us that because we completed our on shore-to-off shore restructuring before September 8, 2006, the effective date of the new regulation, it is not necessary for us to submit the application to the CSRC for its approval, and the listing and trading of our common stock does not require CSRC approval.

If the CSRC or another PRC regulatory agency subsequently determines that CSRC approval was required for any transaction prior to September 21, 2006 not receiving prior approval, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from an offering of securities into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our common stock. The CSRC or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, to halt any offering before settlement and delivery of the securities offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur.

Also, if later the CSRC requires that we obtain its approval for any transaction not receiving prior approval, we may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of our common stock.

Furthermore, the Circular on establishing the Security Review System for Merger and Acquisition of Domestic Enterprise by Foreign Investors was promulgated by the General Office of the State Council on February 3, 2011 and the Ministry of Commerce issued the corresponding implementation rules on August 25, 2011. According to these rules, a foreign investor's acquisitions of Chinese companies in the fields of military, energy and resources, infrastructure, important agricultural products, infrastructure, transport service, key technology and major equipment manufacturing, and other restricted fields requires security review by a ministerial panel established and governed under the direction of the State Council and led by the National Development and Reform Commission and Ministry of Commerce.

Complying with the requirements of the above rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from PRC Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could also affect our ability to expand our business.

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

Under Chinese law land is owned by the state or rural collective economic organizations. The state issues to the land users the land use right certificates. Land use rights can be revoked and the land users forced to vacate at any time when redevelopment of the land is in the public interest. The public interest rationale is interpreted quite broadly and the process of land appropriation may be less than transparent. We acquired approximately 126,605 square meters of land equity in Huizhou from the Huizhou State-Owned Land Resource in 2007 upon which we began constructing our new manufacturing facility. We also acquired 58,669 square meters of land equity in Ganzhou, Guangdong, China in February 2012 from the Ganzhou Land and Resource Bureau upon which we have started construction of a new facility to house our new materials business. Besides the land use rights in Huizhou and Ganzhou, we rely on the land use rights of our landlords for other facilities, and the loss of our own land use rights or our landlords' land use rights would require us to identify and relocate our operations, which could have a material adverse effect on our financial condition and results of operations. Any loss of this land use right would require us to identify and relocate our manufacturing and other facilities, which could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

The SAT issued Bulletin of the State of Taxation [2011] No. 24 (Bulletin) on March 28, 2011, in which various issues regarding the tax administration for non-PRC resident enterprises and clarifications on Circular 698 were addressed. The Bulletin defined some parameters stipulated in Circular 698, which, if a non-resident enterprise were to fall under, would be subject to the Circular requirements including that (a) "foreign investor (party with effective control)" applies to all foreign investors who have indirectly transferred a Chinese resident enterprise and (b) that "effective tax burden" refers to the effective tax imposed on the gains on the share transfer transaction per se. However, the SAT is expected to issue further clarification and guidance with regard to how to decide "abuse of form of organization" and "reasonable commercial purpose," which can be utilized by us to determine if we comply with Circular 698.

If we fail to comply with the requirements under Circular 698 and the Bulletin, we may become at risk of being taxed and we may also be required to expend valuable resources to comply with Circular 698 and the Bulletin or to establish that we should not be taxed, which could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

The value of RMB is subject to changes in China's governmental policies and to international economic and political developments. In January 1994, the PRC government implemented a unitary managed floating rate system. Under this system, the People's Bank of China, or PBOC, began publishing a daily Base Exchange Rate with reference primarily to the supply and demand of RMB against the U.S. Dollar and other foreign currencies in the market during the previous day. Authorized banks and financial institutions are allowed to quote buy and sell rates for RMB within a specified band around the central bank's daily exchange rate. On July 21, 2005, PBOC announced an adjustment of the exchange rate of the U.S. Dollar to RMB and modified the system by which the exchange rates are determined, which has resulted in an appreciation of the RMB against the U.S. Dollar. During the year ended December 31, 2013, the exchange rate of the RMB to the U.S. Dollar increased approximately 2.1% from the level at the end of December 31, 2012. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further fluctuations of the exchange rate of the U.S. Dollar against the RMB, including future devaluations. Because most of our net sales are made in U.S. Dollars and most of our expenses are paid in RMB, any future devaluation of the U.S. Dollar against the RMB could negatively impact our results of operations.

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

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. According to the National Bureau of Statistics of China, China's Average consumer Price Index was 2.6% in 2013. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on our profitability.

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

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

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

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

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

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

On April 6, 2007, SAFE issued the “Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Ownership Plan or Stock Option Plan of An Overseas Listed Company, also known as “Circular 78.” It is not clear whether Circular 78 covers all forms of equity compensation plans or only those which provide for the granting of stock options. For any plans which are so covered and are adopted by a non-PRC listed company after April 6, 2007, Circular 78 requires all participants who are PRC citizens to register with and obtain approvals from SAFE prior to their participation in the plan. In addition, Circular 78 also requires PRC citizens to register with SAFE and make the necessary applications and filings if they participated in an overseas listed company’s covered equity compensation plan prior to April 6, 2007. In 2008, we adopted the Highpower International, Inc. 2008 Omnibus Incentive Plan (the “Plan”) under which we make option grants and other equity awards to our officers, directors and other eligible participants under the plan. Circular 78 may require our officers and directors who receive option grants and are PRC citizens to register with SAFE. We believe that the registration and approval requirements contemplated in Circular 78 will be burdensome and time consuming. If it is determined that the Plan is subject to Circular 78, failure to comply with such provisions may subject us and participants of the Plan who are PRC citizens to fines and legal sanctions and prevent us from being able to grant equity compensation to our PRC employees. In that case, our ability to compensate our employees and directors through equity compensation would be hindered and our business operations may be adversely affected. We have granted options to various employees and officers located in the PRC, including a grant of options to one executive in the PRC in November 2013. We have complied with all of the relevant regulations imposed upon us related to such grants and assisted our grantees with their compliance with their individual registration requirements.

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

Since 2005, our operating subsidiary, SZ Highpower, has received preferential tax concessions in the PRC, which are only granted to high-technology enterprises operating in the Shenzhen Special Economic Zone and are subject to periodic renewal. In 2013, SZ Springpower received the National High-technology Enterprise status, receiving a preferential tax rate of 15%, which expires on December 31, 2015. The expiration of the preferential tax treatment will increase our tax liabilities and reduce our profitability. Additionally, the PRC Enterprise Income Tax Law (the “EIT Law”) was enacted on March 16, 2007. Under the EIT Law, which became effective on January 1, 2008, China adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and canceled several tax incentives enjoyed by foreign-invested enterprises. However, for foreign-invested enterprises established before the promulgation of the EIT Law, a five-year transition period is provided during which the tax rate gradually increased starting in 2008 and will be equal to the new 25% tax rate at the end of the transition period. We believe that our profitability will be negatively affected in the near future as a result of the new EIT Law. Any future increase in the enterprise income tax rate applicable to us or other adverse tax treatments could increase our tax liabilities and reduce net income.

**Under the EIT Law, Highpower International and HKHTC may be classified as “resident enterprises” of China for tax purpose, which may subject Highpower International and HKHTC to PRC income tax on taxable global income.**

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

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

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

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

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

**Any recurrence of Severe Acute Respiratory Syndrome (SARS), Avian Flu, or another widespread public health problem, such as the spread of H1N1 (“Swine”) Flu, in the PRC could adversely affect our operations.**

A renewed outbreak of SARS, Avian Flu or another widespread public health problem, such as the spread of H1N1 (“Swine”) Flu, in China, where all of our operations are located and where the substantial portion of our sales occur, could have a negative effect on our operations. Our business is dependent upon our ability to continue to manufacture battery products. Such an outbreak could have an impact on the Company’s operations as a result of:

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

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

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

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

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

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

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

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

**Contract drafting, interpretation and enforcement in China involve significant uncertainties.**

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

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

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

**RISKS RELATED TO OUR CAPITAL STRUCTURE**

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

Since our initial public offering and listing of our common stock in October 2007, the price at which our common stock had traded has been highly volatile, with the lowest and highest sales price of \$0.92 and \$9.82, respectively. Investors might not be able to resell the shares of our common stock at or above the price they have paid. The stock market has experienced extreme volatility that often has been unrelated to the performance of its listed companies. Moreover, only a limited number of our shares are traded each day, which could increase the volatility of the price of our stock. These market fluctuations might cause our stock price to fall regardless of our performance. The market price of our common stock might fluctuate significantly in response to many factors, some of which are beyond our control, including the following:

- Actual or anticipated fluctuations in our annual and quarterly results of operations;
- Changes in securities analysts' expectations;
- Variations in our operating results, which could cause us to fail to meet analysts' or investors' expectations;
- Announcements by our competitors or us of significant new products, contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Conditions and trends in our industry;
- General market, economic, industry and political conditions;
- Changes in market values of comparable companies;
- Additions or departures of key personnel;

- Stock market price and volume fluctuations attributable to inconsistent trading volume levels; and
- Future sales of equity or debt securities, including sales which dilute existing investors.

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

Three of our stockholders beneficially own or control approximately 43.5% of our outstanding shares. If these stockholders were to act as a group, they would have a controlling influence in determining the outcome of any corporate transaction or other matters submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors, and other significant corporate actions. Such stockholders may also have the power to prevent or cause a change in control. In addition, without the consent of these three stockholders, we could be prevented from entering into transactions that could be beneficial to us. The interests of these three stockholders may differ from the interests of our other stockholders.

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

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

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

We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. Any failure of these controls could also prevent us from maintaining accurate accounting records and discovering accounting errors and financial frauds. Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting. The standards that must be met for management to assess the internal control over financial reporting as effective are complex, and require significant documentation, testing and possible remediation to meet the detailed standards. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. In addition, the attestation process by our independent registered public accountants is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If we cannot assess our internal control over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence and share value may be negatively impacted.

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

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

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

**We have adopted the Highpower International, Inc. 2008 Omnibus Incentive Plan (the “Plan”) under which we may grant securities to compensate employees and other services providers, which could result in increased share-based compensation expenses and, therefore, reduce net income.**

Under current accounting rules, we would be required to recognize share-based compensation as compensation expense in our statement of operations, based on the fair value of equity awards on the date of the grant, and recognize the compensation expense over the period in which the recipient is required to provide service in exchange for the equity award. We made grants of equity awards in 2012 and 2013, and accordingly our results of operations for the years ended December 31, 2013 and 2012 contain share-based compensation charges. If we grant equity compensation to attract and retain key personnel, the expenses associated with share-based compensation may adversely affect our net income. However, if we do not grant equity compensation, we may not be able to attract and retain key personnel or be forced to expend cash or other compensation instead. Furthermore, the issuance of equity awards would dilute the stockholders’ ownership interests in our company.

**Our certificate of incorporation and bylaws and Delaware law may have anti-takeover effects that could discourage, delay or prevent a change in control, which may cause our stock price to decline.**

Our certificate of incorporation and bylaws and Delaware law could make it more difficult for a third party to acquire us, even if closing such a transaction would be beneficial to our stockholders. We are authorized to issue up to 10,000,000 shares of preferred stock. This preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by our board of directors without further action by stockholders. The terms of any series of preferred stock may include voting rights (including the right to vote as a series on particular matters), preferences as to dividend, liquidation, conversion and redemption rights and sinking fund provisions. No preferred stock is currently outstanding. The issuance of any preferred stock could materially adversely affect the rights of the holders of our common stock, and therefore, reduce the value of our common stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell our assets to, a third party and thereby preserve control by the present management.

Provisions of our certificate of incorporation and bylaws and Delaware law also could have the effect of discouraging potential acquisition proposals or making a tender offer or delaying or preventing a change in control, including changes a stockholder might consider favorable. Such provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. In particular, the certificate of incorporation and bylaws and Delaware law, as applicable, among other things:

- provide the board of directors with the ability to alter the bylaws without stockholder approval;
- place limitations on the removal of directors; and
- provide that vacancies on the board of directors may be filled by a majority of directors in office, although less than a quorum.

We are also subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits “business combinations” between a publicly-held Delaware corporation and an “interested stockholder,” which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation’s voting stock for a three-year period following the date that such stockholder became an interested stockholder.

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

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

#### **ITEM 1B.UNRESOLVED STAFF COMMENTS**

Not applicable to smaller reporting companies.

## ITEM 2. PROPERTIES

HKHTC's registered office is located in Hong Kong at Unit 12, 15/F, Technology Park, 18 On Lai Street, ShekMun, Shatin, N.T. Hong Kong.

The Company currently has three active manufacturing operations located in mainland China at 68 Xinxia Street, Pinghu, Longgang, Shenzhen, Guangdong, 518111, China; Building A, Chaoshun Industrial Zone, Renming Road, Danhu Community, Guanglan Street, Bao An District, Shenzhen, Guangdong, 518111, China; and Guanlan Hi-tech Park, South Road around Guanlan, Guanglan Street, Baoan District, Shenzhen, Guangdong, 518111, China. Our active facilities cover approximately 51,932 square meters (not including our new 126,605 square meter facility in Huizhou to which machinery is currently being deployed), and consist of manufacturing plants, dormitories and research and development facilities. We lease manufacturing facilities from various landlords under a total of thirteen leases with varying terms ranging, which are renewed upon expiration. All leases have been fully prepaid until the expiration date. The table below lists the locations, approximate square meters, principal use and lease expiration dates of the facilities used in our manufacturing operations as of December 31, 2013.

<b>Location</b>	<b>Area (square meters)</b>	<b>Principal Use</b>	<b>Lease expiration date</b>
Building A1, 68 Xinxia Street, Pinghu, Longgang District, Shenzhen, Guangdong	3,300	Industry & Residence	December 31, 2016
Building A2, Luo Shan Industrial Zone, Shanxia Community, Pinghu Street, Longgang District, Shenzhen, Guangdong	4,922	Industry & Residence	December 31, 2016
Building A1&A2&A3&A4&A7, Luo Shan Industrial Zone, Shanxia Community, Pinghu Street, Longgang District, Shenzhen, Guangdong	12,608	Staff Dormitory	December 31, 2016
Building A3&A4&A7, Luo Shan Industrial Zone, Shanxia Community, Pinghu Street, Longgang District, Shenzhen, Guangdong	14,702	Industry	December 31, 2016
Building A, Chaoshun Industrial Zone, Renming Road, Danhu Community, Guanglan Street, Baoan District, Shenzhen, Guangdong	9,460	Industry	September 15, 2017
Building A, Chaoshun Industrial Zone, Renming Road, Danhu Community, Guanglan Street, Baoan District, Shenzhen, Guangdong	4,140	Staff Dormitory	September 15, 2017
Guanlan Hi-tech Park, South Road around Guanlan, Guanglan Street, Baoan District, Shenzhen, Guangdong	2,800	Industry & Dormitory	June30, 2015

In China, only the PRC government and peasant collectives may own land. In February 2007, the Company acquired approximately 126,605 square meters of land equity in Industry Development Zone, New Lake, Maan Town, Huicheng District, Huizhou, Guangdong, China for a total of RMB21 million (\$3,446,001) under land use right grant from the Huizhou State-Owned Land Resource Bureau that gave us the right to use the land for 50 years and an agreement with the government of Maan Town. In the event we wish to continue to use the land after the 50-year period, we must apply for an extension at least one year prior to the land grant's expiration. The Company began construction of its new manufacturing facility on this site in October 2008 and the new facility was completed in 2012. The Company plans to use the new location for its lithium battery production.

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

In February 2012, we acquired 58,669 square meters of land equity in Ganzhou, Jiangxi province, China for a total of RMB7,981,864 (\$1,344,353) under land use right grant from the Ganzhou Land and Resource Bureau that gives us the right to use the land for 50 years. Our rights with respect to the land use right grant permit us to develop the land and construct buildings for industrial applications. We have the right to transfer or rent the land and use it as collateral for our loans. In July 2012, we commenced construction of our materials recycling factory in Ganzhou, Jiangxi Province, PRC, which construction was completed in 2013. We will begin initial production in the factory in the first quarter of 2014.

Our Ni-MH manufacturing capacity is approximately 14 million units per month. Our run rate is approximately 13 million units per month. Our lithium battery production is almost at 100% capacity now at our Springpower facility, with manufacturing capacity of approximately 2.5 million units per month. We are also planning for moderate manufacturing capacity growth of approximately 30-40% for the lithium battery segment in the next 12 months at Huizhou facility. The source of funding for such expansion will be our operational cash and bank credit facilities, as we still have unused credit totaling approximately \$29.3 million.

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

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

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

#### Market Information

Our common stock trades on the NASDAQ Global Market under the stock symbol "HPJ."

On March 28, 2014, the closing sales price for our common stock on the Nasdaq Global Market was \$5.14 per share.

The following table summarizes the highest and lowest sales prices of our common stock during the quarters listed below as reported by the NASDAQ:

	Highest	Lowest
<b>Year ended December 31, 2013</b>		
First Quarter	\$ 1.19	\$ 0.94
Second Quarter	\$ 1.28	\$ 0.97
Third Quarter	\$ 1.47	\$ 0.98
Fourth Quarter	\$ 3.17	\$ 1.32
<b>Year ended December 31, 2012</b>		
First Quarter	\$ 1.25	\$ 1.00
Second Quarter	\$ 1.20	\$ 0.97
Third Quarter	\$ 1.20	\$ 0.96
Fourth Quarter	\$ 1.08	\$ 0.92

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

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

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

### **Stockholders**

As of March 28, 2014, we had 25 stockholders of record. This number does not include an indeterminate number of stockholders whose shares are held by brokers in street name.

### **Dividends**

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

We did not pay cash dividends in the years ended December 31, 2013 or 2012.

### **Transfer Agent**

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

### **Equity Compensation Plan Information**

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

### **Additional Information**

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

## **ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

Not applicable for a smaller reporting company.

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

### **Forward-Looking Statements**

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

## Overview

Highpower International was incorporated in the state of Delaware on January 3, 2006 and originally organized as a “blank check” shell company to investigate and acquire a target company or business seeking the perceived advantages of being a publicly held corporation. On November 2, 2007, we closed a share exchange transaction, pursuant to which we (i) became the 100% parent of HKHTC and its wholly-owned subsidiary, SZ Highpower, (ii) assumed the operations of HKHTC and its subsidiary and (iii) changed our name 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. On October 8, 2013, SZ Springpower further increased its registered capital to \$15,000,000. SZ Highpower holds 69.97% of the equity interest of SZ Springpower, and HKHTC holds the remaining 30.03%. HZ Highpower has not commenced operations as of March 25, 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. As of December 31, 2013, the paid-in capital of GZ Highpower was RMB30,000,000 (\$4,807,847). SZ Highpower holds 60% of the equity interest of GZ Highpower, and the four founding management members of GZ Highpower hold the remaining 40%. SZ Highpower formed HZ HTC in March 2012, which engages in the manufacture of batteries.

Through SZ Highpower, we manufacture 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 (“lithium”) 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 salespersons in China Mainland 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, Estimates and Assumptions

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

*Use of Estimates.* 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 disclosures 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, but are not limited to, 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 an 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 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.

**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.

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

**Foreign Currency Translation and Transactions.** Highpower 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**

The following table sets forth the consolidated statements of operations of the Company for the years ended December 31, 2013 and 2012, both in dollars and as a percentage of net sales.

**Consolidated Statements of Operations**
**Year Ended December 31,**

	<b>2013</b>		<b>2012</b>	
	<i>(in thousands except share and per share information)</i>			
Net Sales	132,850	100.0	112,649	100.0%
Cost of Sales	<u>(106,466)</u>	(80.1%)	<u>(88,943)</u>	(79.0%)
Gross profit	26,384	19.9%	23,706	21.0%
Research and development expenses	(5,711)	(4.3%)	(4,611)	(4.1%)
Selling and distribution expenses	(6,188)	(4.7%)	(5,348)	(4.7%)
General and administrative expenses including share-based compensation	(12,093)	(9.1%)	(11,479)	(10.2%)
Loss on exchange rate difference	(553)	(0.4%)	(220)	(0.2%)
Gain on derivative instruments	326	0.2%	731	0.6%
Income from operations	2,165	1.6%	2,779	2.5%
Other income	1,539	1.2%	631	0.6%
Interest expenses	<u>(1,647)</u>	(1.2%)	<u>(705)</u>	(0.6%)
Income before tax	2,057	1.5%	2,705	2.4%
Income tax expense	<u>(718)</u>	0.5%	<u>(1,133)</u>	(1.0%)
Net income	1,339	1.0%	1,572	1.4%
Less: loss attributable to non-controlling interest	<u>(112)</u>	(0.1%)	<u>(145)</u>	(0.1%)
Net income attributable to the company	<u><u>1,451</u></u>	1.1%	<u><u>1,717</u></u>	1.5%
Income per common share				
- Basic	<u><u>0.11</u></u>		<u><u>0.13</u></u>	
-Diluted	<u><u>0.11</u></u>		<u><u>0.13</u></u>	
Weighted average common shares outstanding				
-Basic	13,671,169		13,582,106	
-Diluted	13,687,698		13,582,106	
Dividends declared per common share	-		-	

## Years ended December 31, 2013 and 2012

Net sales for the year ended December 31, 2013 were \$132.8 million compared to \$112.6 million for the year ended December 31, 2012, an increase of \$20.3 million, or 17.9%. The increase was due to a \$20.0 million increase in net sales of our lithium batteries (resulting from a 49.6% increase in the volume of batteries per ampere hour sold and a 2.0% increase in the average selling price of such batteries) and a \$1.1 million increase in net sales of our Ni-MH batteries (resulting from a 10.1% increase in the number of Ni-MH battery units sold which was partly offset a 7.9% decrease in the average selling price of such batteries) and a \$843,058 decrease in revenue from our new material business. The increase in the number of Ni-MH battery units sold in 2013 was primarily attributable to increased orders from our new customers and the increase in the volume of lithium batteries sold in 2013 was primarily attributable to increased orders from our new and existing customers due to the growth in global demand for lithium batteries.

Cost of sales mainly consists of nickel, cobalt, lithium derived materials, labor, and overhead. Cost of sales were \$106.5 million for the year ended December 31, 2013 as compared to \$88.9 million for the comparable period in 2012. As a percentage of net sales, cost of sales increased to 80.1% for the year ended December 31, 2013 compared to 79.0% for the comparable period in 2012. This increase was attributable to increase in labor cost.

Gross profit for the year ended December 31, 2013 was \$26.4 million, or 19.9% of net sales, compared to \$23.7 million, or 21.0% of net sales, respectively, for the comparable period in 2012. Management considers gross profit to be a key performance indicator in managing our business. Gross profit margins are usually a factor of cost of sales, product mix and demand for products. This decrease was attributable to decrease in the average selling price of Ni-MH batteries and increase in labor cost.

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 globally.

Research and development expenses were \$5.7 million, or 4.3% of net sales, for the year ended December 31, 2013, as compared to \$4.6 million, or 4.1% of net sales, for the comparable period in 2012. The increase of 23.9% was due to R&D activities in high end power batteries and systems in transportation and industrial energy storage areas, and the expansion of our workforce to improve research in basic materials and electrochemical system to increase battery energy density such as high voltage and silicon anode technologies, and fast charge performance, etc.

Selling and distribution expenses were \$6.2 million, or 4.7% of net sales, for the year ended December 31, 2013 compared to \$5.3 million, or 4.7% of net sales, for the comparable period in 2012, an increase of 15.7%. Selling and distribution expenses increased due to the expansion of our increased sales and marketing activities, including participation in industry trade shows and international travels to promote and sell our products abroad.

General and administrative expenses were \$12.1 million, or 9.1% of net sales, for the year ended December 31, 2013, compared to \$11.5 million, or 10.2% of net sales, for the comparable period in 2012. The increase was mainly due to the increase of overall management staff cost.

We experienced a loss of \$552,669 and \$220,597 on the exchange rate difference between the U.S. Dollar and the RMB in the years ended December 31, 2013 and 2012, respectively. The loss in exchange rate difference was due to the appreciation of the RMB relative to the U.S. Dollar over the respective periods.

We experienced a gain on derivative instruments of approximately \$326,222 in the year ended December 31, 2013, which included a gain of \$519,750 on settled currency forwards and a loss of \$193,528 on unsettled currency forwards, as compared to a gain of \$730,591 for the comparable period in 2012, which included a gain of \$493,882 on settled currency forwards and a gain of \$236,709 on unsettled currency forwards.

Interest expense was \$1.6 million for the year ended December 31, 2013, as compared to \$705,218 which resulted from a \$1.2 million of total interest expense deducted by capitalized interest expense of \$541,998 for the respective comparable period in 2012. The change was \$399,939 due to an increase in bank borrowings

Other income, which consists of bank interest income, government grants and sundry income, was \$1.5 million for the year ended December 31, 2013, as compared to \$630,842 for the year ended December 31, 2012, an increase of \$907,676. The increase was mainly due to an increase of \$387,299 in bank interest income and of \$423,782 in government grants.

During the year ended December 31, 2013, we recorded a provision for income tax expense of \$718,016, as compared to \$1.1 million for the comparable period in 2012. The decrease was due to the net income during this period.

Net income attributable to the Company (excluding net loss attributable to non-controlling interest) for the year ended December 31, 2013 was \$1.5million compared to net income attributable to the Company (excluding net loss attributable to non-controlling interest) of \$1.7 million for the comparable period in 2012.

### **Liquidity and Capital Resources**

We had cash and cash equivalents of approximately \$8.0 million as of December 31, 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 which have been incurred outside the PRC.

In 2013, we completed the construction of our large scale lithium battery production facility in Huizhou. The Company has been leveraging from various Chinese banks to fund our expansion to meet the demand from the fast growing lithium battery market in mobile and portable consumer devices, vehicles of various sizes, and energy storage systems. As of December 31, 2013, we had in place general banking facilities with nine financial institutions aggregating \$74.6 million. The maturity of these facilities is generally within one year. The facilities are subject to annual 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. However, these covenants do not have any impact on our ability to undertake additional debt or equity financing. Interest rates are generally based on the banks' reference lending rates. No significant commitment fees are required to be paid for the banking facilities. As of December 31, 2013, we had utilized approximately \$45.3 million under such general credit facilities and had available unused credit facilities of \$29.3 million. The Company's debt asset ratio reached 77% as of December 31, 2013.

The management of the Company has taken and will take a number of actions and will continue to address our high debt level in order to restore the Company to a sound financial structure with an appropriate business strategy going forward. These actions can include marketing more higher-margin lithium battery products and systems; controlling cost in operating expenses by improving management efficiency; and stock sales to strategic investors.

We believe that our existing balances of cash and cash equivalents and amounts expected to be provided by operating activities and stock sales will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for the next twelve months.

However, in the event of unforeseen circumstances, unfavorable market developments or unfavorable results from operations, there can be no assurance that the above actions could be successfully implemented as expected, and cash flows may be adversely affected.

For the year ended December 31, 2013, net cash provided by operating activities was approximately \$9.4 million, as compared to net cash provided by operating activities of \$3.8 million for the comparable period in 2012. The net cash increase of \$5.5 million provided by operating activities is primarily attributable to, among other items, a decrease of \$7.9 million in cash outflow of accounts payable, a decrease of \$5.7 million in cash outflow of other payables and accrued liability, which was significantly offset by a decrease of approximately \$2.9 million in inflow from accounts receivable, a decrease of \$2.7 million in prepayment and a decrease of 1.3 million in allowance for doubtful accounts. The cash outflow decreases in accounts payable was, to a great extent, attributable to the more favorable credit period granted by our suppliers.

Net cash used in investing activities was \$20.0 million for the year ended December 31, 2013 compared to \$13.0 million for the comparable period in 2012. The net increase of \$7.0 million cash used in investing activities was primarily attributable to an increase in spending on the construction and deployment of plant and equipment in 2013 for the Huizhou factory that is expected to commence operation in the first quarter of 2014. We are equipping the factory with new and more advanced manufacturing capability machines.

Net cash provided by financing activities was \$11.4 million for the year ended December 31, 2013 as compared to net cash provided by financing activities of \$10.0 million for the comparable period in 2012. The net increase of \$1.4 million cash provided by financing activities was primarily attributable to an increase of \$19.5 million in proceeds from short-term bank loans, a decrease of \$2.9 million in repayment of letters of credit, an increase of \$14.3 million in restricted cash, which was partly offset by an increase of \$15.0 million in repayment of short-term bank loans, an increase of \$8.8 million in repayment of notes payable, a decrease of \$1.1 million in proceeds from notes payable and an increase of \$1.6 million in repayment long-term bank loans.

For fiscal year 2013 and 2012, our inventory turnover was 5.8 and 5.9 times, respectively. The average days outstanding of our accounts receivable at December 31, 2013 was 80 days, as compared to 74 days at December 31, 2012. Inventory turnover and average days outstanding of accounts receivables are key operating measures that management relies on to monitor our business.

We are required to contribute a portion of our employees' total salaries to the Chinese government's social insurance funds, including retirement pension, medical insurance, unemployment insurance and job injuries insurance, and a housing assistance fund, in accordance with relevant regulations. We expect these contributions will contribute to administrative and other operating expenses in an amount of approximately \$134,480 per month based on the size of our current workforce. We expect the amount of our contribution to the government's social insurance funds to increase in the future as we expand our workforce and operations.

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

The use of working capital is primarily for the maintenance of our accounts receivable and inventory. We provide our major customers with payment terms ranging from 30 to 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 and work in process and finished goods inventory on hand to ensure timely delivery of our products to our customers. We use two methods to support our working capital needs: (i) paying our suppliers under payment terms ranging from 60 to 120 days; and (ii) using short-term bank loans. We use accounts receivable as collateral for our loans. Upon receiving payment for accounts receivable, we pay our short-term loans. Our working capital management practices are designed to ensure that we maintain sufficient working capital.

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

Mr. Dang Yu Pan, our Chairman and Chief Executive Officer, has provided personal guarantees under certain of our outstanding banking facilities. The following table shows the amount outstanding on each of our bank loans as of December 31, 2013 and the guarantors of each loan:

Name of Bank	Amount Granted	Unused line of credit	Maturity date	Guaranteed by
Bank of China	\$ 3,689,129	\$ 247,582	1/25/2014	Dang Yu Pan
Bank of China	12,707,001	1,674,876	1/10/2014	Dang Yu Pan
Ping An Bank Co., Ltd	\$ 11,477,291	\$ 7,564,027	9/17/2014	Dang Yu Pan
China Everbright Bank	\$ 8,438,433	\$ 1,382,194	5/29/2014	Dang Yu Pan
China Everbright Bank	1,147,729	-	9/3/2014	Dang Yu Pan
Industrial and Commercial Bank of China	\$ 6,558,452	\$ 1,803,574	7/25/2015	Dang Yu Pan
China Citic Bank	\$ 7,378,259	\$ 5,738,646	3/29/2014	Dang Yu Pan
Industrial Bank Co., Ltd	\$ 8,198,065	\$ 6,558,452	7/24/2014	Dang Yu Pan
Jiang Su Bank Co., Ltd	\$ 4,918,839	-	6/20/2014	Dang Yu Pan
The Shanghai Commercial & Saving bank	\$ 3,000,000	1,250,000	8/29/2014	-
Industrial and Commercial Bank of China (MACAU) LIMITED	\$ 7,093,296	3,084,294	1/29/2014	-
<b>Total:</b>	<b>\$ 74,606,494</b>	<b>\$ 29,303,645</b>		

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

### **Inflation and Seasonality**

Inflation has not had a significant impact on our operations during the last two fiscal years. However, the volatile nickel prices affect our cost of sales constantly. In times of economic downturn, nickel prices tend to decline, and our gross margin tends to be higher than the periods when of economy growth, which usually brings higher metal prices. The price of nickel was volatile during 2012 and 2013 and could be volatile again. The price of nickel decreased 12% from January 2012 to December 2012 and 20% from January 2013 to December 2013.

The first quarter of each fiscal year tends to be our slow season due to the Chinese New Year holidays. Our factories and operations usually shut down for 1-2 weeks during this time, resulting in lower sales during the first quarter.

### **Off-Balance Sheet Arrangements**

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

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

### *Credit Risk*

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

### *Foreign Currency and Exchange Risk*

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 expenses in RMB. Approximately 60% of our sales are made in U.S. Dollars. During the year ended December 31, 2013, the exchange rate of the RMB to the U.S. Dollar appreciated approximately 2.1% 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 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 December 31, 2013, the Company had a series of currency forwards totaling a notional amount of \$6.0 million expiring from January 2014 to October 2014. 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 \$326,222 and \$730,591 attributable to these activities are included in “gain of derivative instruments” for the year ended December 31, 2013 and 2012, respectively.

### *Country Risk*

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

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

The information required by this Item 8 is incorporated in this Form 10-K.

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

None.

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

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

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

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

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that as of December 31, 2013, our internal control over financial reporting is effective based on those criteria.

**ITEM 9B. OTHER INFORMATION**

*Loan Contract Between SZ Highpower and Ping An Bank Co., Ltd. Shenzhen Xinzhou Branch*

SZ Highpower entered into a comprehensive credit line contract effective as of November 12, 2013, with PING AN BANK CO., LTD. SHENZHEN XINZHOU BRANCH, which provides for a revolving line of credit of up to RMB70,000,000 (US\$11,477,291). SZ Highpower may withdraw the loan, from time to time as needed, on or before September 17, 2014. The loan is guaranteed by SZ Springpower and our Chief Executive Officer, Dang Yu Pan.

On December 3, 2013, SZ Highpower entered into a working capital loan contract with PING AN BANK CO., LTD. SHENZHEN XINZHOU BRANCH providing for an aggregate loan of RMB10,000,000 (US\$1,639,613) to be used by SZ Highpower to purchase raw materials. The term of the loan is 12 months from the first withdrawal date. The interest rate will float and adjust every month. 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 25%. The loan is guaranteed by SZ Springpower and our Chief Executive Officer, Dang Yu Pan.

The following constitute events of default under the loan contracts: SZ Highpower changes the method of payment under the contract; SZ Highpower's failure to timely repay the principal, interest and other payable under the contract; SZ Highpower's failure to use the loan proceeds for the prescribed purposes; SZ Highpower's violation of any statement, warranty and commitment with the bank; SZ Highpower's violation of any other obligations in the contract; SZ Highpower's concealment of true important information; SZ Highpower or a guarantor's avoidance of bank debts on purpose through related party transactions or otherwise; SZ Highpower or a guarantor's transfer of property or use of assets to avoid debts by way of gratis, unreasonably-low priced transactions or for other improper means; SZ Highpower's use of false contracts and arrangements signed with any other third party to get funds or credit from the bank, including but not limited to pledge or discount of the notes receivable and other claims without actual trading background; SZ Highpower or a guarantor's violation of any other contract (including but not limited to credit contract, loan contract and guarantee contract) with signed with the bank or other banks or issuance of any bonds; The guarantor's violation of the guarantee contract (including but not limited to guarantee contract, mortgage contract and pledge contract) or occurrence of any breach of the guarantee contract, or the guarantee contract is in vain or cancelled; The guaranty value is obvious reduction, loss, or dispute about the ownership of the guaranty, or the guaranty is sealed up, detained, frozen, deducted, detained or sold by auction; the occurrence of a merger, split, acquisition, reorganization, equity transfer, increase in debt financing or any other major event involving SZ Highpower that the bank believes might affect the safety of the loans; SZ Highpower or a guarantor's business term has been expired within the credit line period, and SZ Highpower or a guarantor fails to handle the procedures for renewal.

Upon the occurrence of an event of default, the bank may: temporarily suspend or permanently terminate SZ Highpower's credit limit in whole or in part; announce the immediate expiration of all or part of the debts under the contract and request the payment of part or all the principal, interest and expenses immediately; request overdue interest from SZ Highpower caused by the default; request SZ Highpower to keep cash deposit for paying undue acceptance, L/G, L/C or other credit business; request SZ Highpower to provide new guarantee measures accepted by the bank; deduct the sum in SZ Highpower or a guarantor's account at the bank to discharge all or part of the liabilities of the bank without prior consent by the bank; require the guarantors to undertake the guarantee responsibility; take a legal action to collect the debts, fees and other losses from SZ Highpower by judicial procedure.

The information included in this Item 9B is provided in accordance with Item 1.01 and Item 2.03 of Form 8-K. The preceding summaries of the above-referenced agreements are qualified in their entirety by reference to the complete text of the agreements, which are filed as exhibits to this report and are incorporated by reference herein. You are urged to read the entire text of the loan agreements attached hereto.

*Credit contract between HKHTC and Shanghai Commercial & Savings Bank Ltd., Hong Kong branch*

On September 17, 2013, HKHTC entered into a non-revolving short-term secured loan facility with Shanghai Commercial & Savings Bank Ltd., Hong Kong Branch providing for an aggregate loan of \$3,500,000. HKHTC may withdraw the loan, from time to time as needed, on or before September 17, 2014, by giving notice to the bank no later than 2 business days before the drawdown date. All the outstanding liabilities under the facility shall be repaid by the final maturity date, which is 12 months after the drawdown date. The interest rate charged on the loans is at 2% per annum above 6-Month LIBOR or 1.3% p.a. above 6-Month TAIFX, whichever is higher, but in any event not to be less than the bank's cost of funds. Interest is payable quarterly commencing three months after the drawdown date or at the due date, whichever is earlier. The loan is guaranteed by our Chief Executive Officer, Dang Yu Pan.

The following constitute events of default under the loan facility: HKHTC fails to pay any amounts payable under the facility on its due date; HKHTC fails to perform any of its obligations under the contract; any representation or warranty of HKHTC in the loan facility is or proves to have been untrue or inaccurate in any material respect; HKHTC's bankruptcy; any shareholder (being a company) commits an act to go into voluntary liquidation or reconstruction or amalgamation; or the occurrence of any situation which in the bank's opinion may materially and adversely affect HKHTC's ability to perform its obligations under the loan facility.

At any time upon demand, the bank may declare the amount of the facility outstanding, accrued interest and all other sums payable immediately due and payable.

On January 17, 2014, the Company issued to a consultant five-year warrants to purchase 100,000 shares of common stock with an exercise price per share of \$3.80 and 100,000 shares with an exercise price per share of \$2.20 per share. The warrants were issued pursuant to the terms of a consulting agreement entered into in July 2013 and pursuant to which the Company also issued an aggregate of 150,000 shares of common stock on August 15, 2013. The securities were issued pursuant to Section 4(2) of the Securities Act, as amended, and Regulation D and Regulation S thereunder.

### PART III

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

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

Name	Age	Position
Dang Yu Pan	47	Chairman of the Board and Chief Executive Officer
Wen Liang Li	49	Vice President, Chief Technology Officer and Director
Wen Wei Ma	45	Vice President of Manufacturing
Henry Sun	42	Chief Financial Officer and Corporate Secretary
Bin Ran	45	Vice President of Strategy and Human Resources
Wen Jia Xiao	38	Vice President of Quality Control
Xin Hai Li	52	Director
T. Joseph Fisher, III	63	Director
Ping Li	50	Director

**Dang Yu Pan** has been the Chairman of the Board and Chief Executive officer of Highpower International and HKHTC since November 2007 and July 2003, respectively. Mr. Pan is the founder of SZ Highpower and has served as the Chairman of the Board and Chief Executive Officer of SZ Highpower since October 2002. Mr. Pan has served as a director of ICON since February 2011; as a director and Chief Executive Officer of SZ Springpower since June 2008; and as a director of HZ HTC since March 2012. From May 2001 to October 2002, Mr. Pan was the General Manager and Chairman of the Board of Guangzhou Haopeng Technology Co., Ltd. From January 1997 to July 2000, Mr. Pan was the Vice General Manager of NanhaiShida Battery Co., Ltd. From January 1995 to December 1996, Mr. Pan served as a director of the Huangpu Aluminum Factory. Additionally, from August 1990 to December 1994, Mr. Pan worked in the sales department of the Guangzhou Aluminum Products Factory. Mr. Pan received a bachelor's degree in metallurgical engineering from Central South University in China in 1990. We believe Mr. Pan's qualifications to sit on our Board include his extensive understanding of our business, our products and the battery industry that he has acquired over his 16 years working in the battery industry, including over 10 years as an officer and director of SZ Highpower.

**Wen Liang Li** has been a director of Highpower International since November 2007 and a director of HKHTC since July 2003. Since January 2003, Mr. Li has served as a director and as Vice General Manager and Chief Technology Officer of SZ Highpower. Mr. Li has served as a director of SZ Springpower since June 2008, as a director of HZ HTC since March 2012 and as a director of Shenzhen Highpower's 60%-owned subsidiary, Ganzhou Highpower Technology Co., Ltd ("GZ Highpower"), since September 2010. From January 1996 to December 2002, Mr. Li served as Vice General Manager of Zhuhai Taiyi Battery Co., Ltd., a battery manufacturer. Mr. Li received a master's degree in Electrochemistry from the Harbin Institute of Technology in China in 1991. We believe that Mr. Li's 22 years of work experience in the battery industry, including 10 years as an officer and director of SZ Highpower, well qualify Mr. Li to serve on our Board.

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

**Henry Sun** has served as the Chief Financial Officer of the Company since January 2011. Mr. Sun joined the Company in November 2010 as the President's Assistant. Prior to joining the Company, Mr. Sun was the Chief Financial Officer of Zoomlion Concrete Machinery Company from November 2009 to October 2010. From November 2008 to September 2009, Mr. Sun served as the Finance Director of Yasheng Group USA (OTCBB: YHGG). From December 2006 to November 2008, he was the senior finance manager of Cepheid, Inc. (NASDAQ: CPHD). From October 2003 to September 2006, he was a financial consultant at Merrill Lynch. Mr. Sun received a BSEE degree from Beijing University of Post and Telecommunications, and a master degree from the Thunderbird School of Global Management.

**Bin Ran** joined Highpower in June 2010 as General Manager of Human Resource and was appointed Vice President of Strategy and Human Resources in March 2011. From April 2004 to April 2010, he worked for Shenzhen Joint Financial Group Co., Ltd, serving in positions at various of its portfolio companies, including General Manager of several companies such as Shenzhen Cbhandsun Management Consulting Co., Ltd, Guangzhou Cbhandsun Management Consulting Co., Ltd, Shenzhen Flink Training Center and Singapore Flink Training Center. From July 1998 to March 2004, he worked as a management consultant at various companies including Shenzhen Quanxi Management Consulting Company, Singapore Corey Consulting Company. He was also invited as MBA professor of Zhongshan University, University of Northern Virginia and Inter American University. From 1995 to 1997, Mr. Ran worked as an Engineer of GP Batteries International Limited. Mr. Ran received a bachelor degree in Electrochemistry from the Sichuan Light Chemical Engineering Institute in 1993.

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

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

**T. Joseph Fisher III** has served as a director of the Company since April 2011. He has served as the CEO and President of Valence Technology, Inc. since November 2012. Mr. Fisher has served as a director of Valence since July 2012. In November 2013, Valence exited a voluntary petition in the United States Bankruptcy Court for the Western District of Texas under the provisions of Chapter 11 of the United States Bankruptcy Code. Prior to joining Valence, Mr. Fisher was the CEO and President of Contour Energy Systems, a power company specializing in the commercialization of customizable battery technologies, from February 2008 to January 2012. Since May 2007, he has served as president of JCF International, LLC, an advisory and consulting firm for portable power companies. Prior to joining Contour, Mr. Fisher was employed for 30 years at Energizer battery group, where he had held numerous senior management positions including Vice President – Global Rechargeable Battery Business Unit from April 2001 to May 2007, Vice President and General Manager – Energizer Power Systems, Vice President – Business Development, General Manager – Miniature Batteries, as well as holding several international management assignments in Europe, Argentina and South Africa. He also worked for Xerox, General Electric and Union Carbide earlier in his career. Mr. Fisher received a B.S. in Industrial Management from the University of Cincinnati and an MBA from the West Virginia College of Graduate Studies, now a part of Marshall University. We believe that Mr. Fisher's qualifications to sit on our Board include his extensive understanding of our business and over 30 years of experience in the battery industry, as well as his knowledge of U.S. GAAP and financial statements.

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

#### **Family Relationships**

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

## Director Independence

Subject to certain exceptions, under the listing standards of the NASDAQ Stock Market, LLC, a listed company's board of directors must consist of a majority of independent directors. Currently, our board of directors has determined that each of the non-management directors, Xin Hai Li, T. Joseph Fisher, III and Ping Li, is an "independent" director as defined by the listing standards of the NASDAQ Marketplace Rules currently in effect and approved by the U.S. Securities and Exchange Commission ("SEC") and all applicable rules and regulations of the SEC. All members of the Audit, Compensation and Nominating Committees satisfy the "independence" standards applicable to members of each such committee. The board of directors made this affirmative determination regarding these directors' independence based on discussion with the directors and on its review of the directors' responses to a standard questionnaire regarding employment and compensation history; affiliations, family and other relationships; and transactions with the Company. The board of directors considered relationships and transactions between each director or any member of his immediate family and the Company and its subsidiaries and affiliates. The purpose of the board of director's review with respect to each director was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent under the NASDAQ Marketplace Rules.

## Board Committees

### *Audit Committee*

We established our Audit Committee in January 2008. The Audit Committee consists of Xin Hai Li, T. Joseph Fisher, III and Ping Li, each of whom is an independent director. Mr. Ping Li, Chairman of the Audit Committee, is an "audit committee financial expert" as defined under Item 407(d) of Regulation S-K. The purpose of the Audit Committee is to represent and assist our board of directors in its general oversight of our accounting and financial reporting processes, audits of the financial statements and internal control and audit functions. The Audit Committee's responsibilities include:

- The appointment, replacement, compensation, and oversight of work of the independent auditor, including resolution of disagreements between management and the independent auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or performing other audit, review or attest services.
- Reviewing and discussing with management and the independent auditor various topics and events that may have significant financial impact on our company or that are the subject of discussions between management and the independent auditors.

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

During the four month period from September 2012 to December 2012, we paid Mr. Fisher an aggregate of \$12,000 in fees to provide us with leads and prospects of potential customers, which services were unrelated to his responsibilities as a member of the board of directors or committee of the board. Mr. Fisher ceased providing such services in December 2012 and no payments have been made to Mr. Fisher since December 2012, other than payments related to his service on our board of directors and committees thereof.

We notified NASDAQ of our payment of such fees on March 20, 2013 when we discovered that our payment of such fees to Mr. Fisher as a member of the audit committee were not permitted pursuant to NASDAQ listing rules. On March 27, 2013, the Listing Qualifications department of NASDAQ notified us via letter that due to Mr. Fischer's acceptance from the Company of the \$12,000 in fees unrelated to his service as a director or audit committee member, Mr. Fisher did not meet the independence criteria for audit committee members as set forth in Rule 10A-3(b)(1) promulgated under the Exchange Act. As a result, the Listing Qualifications department of NASDAQ determined that the Company had failed to comply with NASDAQ's audit committee composition requirements set forth in Listing Rule 5605(c)(2)(A)(ii). However, NASDAQ further noted that, because Mr. Fisher is no longer receiving such fees, the matter is now closed. Mr. Fisher remains an independent director of the Company and member of the audit committee and the Company is again in compliance with the Listing Rule. We reported our receipt of the March 27, 2013 letter from NASDAQ on a current report on form 8-K filed with the Securities and Exchange Commission on March 28, 2013.

In response to this issue, we have reviewed our procedures with respect to these types of payments and plan to take the following steps to assure that no payments are made to directors in violation of NASDAQ listing rules: (a) revise our Audit Committee Charter to clarify that the Audit Committee is responsible for reviewing and approving related party transactions with both officers and directors, including any payments made to such persons either directly or indirectly, and (b) require that any payment made to independent directors, either directly or indirectly, other than standard director compensation fees, be approved by both the Company's Chief Executive Officer and Chief Financial Officer, after consultation with counsel.

## Compensation Committee

We established our Compensation Committee in January 2008. The Compensation Committee consists of Xin Hai Li and T. Joseph Fisher, III, each of whom is an independent director. Xin Hai Li is the Chairman of the Compensation Committee. The Compensation Committee is responsible for the design, review, recommendation and approval of compensation arrangements for the Company's directors, executive officers and key employees, and for the administration of our equity incentive plans, including the approval of grants under such plans to our employees, consultants and directors. The Compensation Committee also reviews and determines compensation of our executive officers, including our Chief Executive Officer. The board of directors has adopted a written charter for the Compensation Committee. A current copy of the Compensation Committee Charter is posted on the Company's website at: [www.highpowertech.com](http://www.highpowertech.com).

## Nominating Committee

The Nominating Committee consists of Xin Hai Li and T. Joseph Fisher, III, each of whom is an independent director. T. Joseph Fisher, III is the Chairman of the Nominating Committee. The Nominating Committee assists in the selection of director nominees, approves director nominations to be presented for stockholder approval at our annual general meeting and fills any vacancies on our board of directors, considers any nominations of director candidates validly made by stockholders, and reviews and considers developments in corporate governance practices. The board of directors has adopted a written charter for the Nominating Committee. A current copy of the Nominating Committee Charter is posted on the Company's website at: [www.highpowertech.com](http://www.highpowertech.com).

## Section 16(a) Beneficial Ownership Reporting Compliance

The Company's securities are currently registered under Section 12 of the Securities Exchange Act of 1934, as amended. As a result, and pursuant to Rule 16a-2, the Company's directors and officers and holders of 10% or more of its common stock are currently required to file statements of beneficial ownership with regards to their ownership of equity securities under Sections 13 or 16 of the Exchange Act. Based on a review of written representations from our executive officers and directors and a review of Forms 3, 4 and 5 furnished to us, we believe that during the fiscal year ended December 31, 2013, no directors, officers or owners of more than 10% failed to file, on a timely basis, reports required by Section 16(a) of the Exchange Act, except for Ping Li Xin Hai Li and T. Joseph Fisher, II which filed late a Form 4 with respect to the grant of 15,000 shares of restricted stock and a Form 3.

## Code of Ethics

The Company's board of directors has adopted a Code of Business Conduct and Ethics, which applies to all directors, officers and employees. The purpose of the Code is to promote honest and ethical conduct. The Code is posted on the Company's website located at: [www.highpowertech.com](http://www.highpowertech.com), and is available in print, without charge, upon written request to the Company at Highpower International, Inc., Building A1, 68 Xinxia Street, Pinghu, Longgang, Shenzhen, Guangdong, 518111, People's Republic of China. The Company intends to post promptly any amendments to or waivers of the Code on its website.

## ITEM 11. EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table sets forth information concerning the compensation for the fiscal years ended December 31, 2013 and 2012 of the principal executive officer and up to two other officers whose compensation exceeded \$100,000 during such years (our "named executive officers").

Name and Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (1)	Total
	Dang Yu Pan CEO and Chairman	2013	\$ 67,000	\$ 50,000	\$ 75,954	-
	2012	\$ 66,000	\$ 40,000	-	-	\$ 106,000
Henry Sun Chief Financial Officer	2013	\$ 87,000	\$ 23,500	-	\$ 107,611	\$ 218,111
	2012	\$ 75,000	\$ 10,000	-	\$ 85,299	\$ 170,299
Wen Liang Li Vice President, Chief Technology Officer and Director	2013	\$ 77,000	\$ 26,000	\$ 57,324	-	\$ 160,324
	2012	\$ 76,000	\$ 25,000	-	-	\$ 101,000

(1) Represents the full grant date fair value computed in accordance with FASB ASC Topic 718. For assumptions used in calculation of awards, see Note 17 (Share Based Payment) to our consolidated financial statements included in this Annual Report on Form 10-K.

We do not have any employment agreements with any of our named executive officers. Bonus is based on performance. Key performance indicators used as criteria for determining bonuses include corporate profitability, sales growth, and corporate milestone achievements. On January 21, 2011, the Company granted Mr. Sun ten-year options to purchase an aggregate of 250,000 shares of common stock at an exercise price of \$3.55 per share. With respect to the grant, options to purchase 150,000 shares have vested, while 100,000 will vest on November 1, 2014. On November 14, 2013, the Company granted Mr. Sun ten-year option to purchase an aggregate of 40,000 shares of common stock at an exercise price of \$2.63 per share. With respect to the grant, options to purchase 12,000 will vest on November 14, 2014, 12,000 on November 14, 2015 and 16,000 on November, 2016. On October 8, 2013, the Company granted 246,000 shares of restricted stock to members of the Board of Directors as Restricted Stock Awards (“RSA”) under the 2008 Omnibus Incentive Plan. Mr. Pan and Mr. Li received 106,000 and 80,000 RSAs, respectively. The RSAs granted in 2013 had the following vesting periods, 30% immediately upon grant, 30% on first anniversary of grant date, and 40% on second anniversary of grant date.

#### Outstanding Equity Awards at 2013 Fiscal Year End

The following table sets forth the outstanding stock options for each of our named executive officers as of December 31, 2013.

#### OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised options(#) exercisable	Number of Securities Underlying Unexercised options(#) unexercisable	Option Exercise Price(\$)	Option Expiration Date	Number of Shares that have Not Vested (#)	Market Value of Shares that have not vested (\$)(1)
Henry Sun	150,000	100,000(2)	3.55	11/1/2021	--	--
	-	40,000(3)	2.63	11/14/2023	--	--
Dang Yu Pan	-	-	-	-	74,200(4)	189,952
Wen Liang Li	-	-	-	-	56,000(4)	143,360

(1) Market value is based on the closing price of \$2.56 of the Company’s common stock on December 31, 2013.

(2) Options vest on November 1, 2014.

(3) Options vest as follows: 12,000 options on November 14, 2014, 12,000 options on November 14, 2015 and 16,000 options on November 14, 2016.

(4) On October 15, 2013, Mr. Pan was granted 106,000 RSAs and Mr. Li was granted 80,000 RSAs under the 2008 Omnibus Incentive Plan. The shares vest on each anniversary of the date of grant with 30% of the shares vested on the date of grant, 30% vesting in 2014 and 40% vesting in 2015.

## Director Compensation

The following table shows information regarding the compensation earned during the fiscal year ended December 31, 2013 by members of board of directors. Compensation information for Dang Yu Pan and Wen Liang Li is described in the summary compensation table above.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)	Total (\$)
T. Joseph Fisher, III	34,000	21,479	3,529	59,026
Xin Hai Li	18,000	10,748	--	28,748
Ping Li	18,000	10,748	--	28,748

(1) Represents the full grant date fair value computed in accordance with FASB ASC Topic 718. For assumptions used in calculation of equity awards, see Note 17 (Share Based Payment) to our consolidated financial statements included in this Annual Report on Form 10-K.

Dang Yu Pan and Wen Liang Li are management board members. While in previous years, we offered our management board members a total compensation package, which include salary, bonus and director fees, we now do not pay such directors separate fees for board membership. We now offer our management board members a compensation package consisting of salary and bonus based on benchmarks reported by Shenzhen Labor Bureau.

We do not have a formal policy with respect to the compensation of our non-executive directors. We pay our non-executive directors for their services at the rate of \$1,500 to \$3,000 per month.

Directors are eligible to receive, from time to time, grants of options to purchase shares of our common stock and other awards under our 2008 Omnibus Incentive Plan (the "Plan").

## Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2013 regarding compensation plans, including any individual compensation arrangements, under which equity securities of Highpower International, Inc. are authorized for issuance.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted- average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	1,105,000	\$ 2.82	632,000
Equity compensation plans not approved by security holders	-	-	-
Total	1,105,000	N/A	632,000

As of March 28, 2014, there were 632,000 shares available for issuance pursuant to the Plan.

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

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options and warrants held by that person that are currently exercisable or become exercisable within 60 days of March 28, 2014 are deemed outstanding even if they have not actually been exercised. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

The following table sets forth as of March 28, 2014 certain information with respect to beneficial ownership of our common stock based on 13,978,106 issued and outstanding shares of common stock, by:

- Each person known to be the beneficial owner of 5% or more of the outstanding common stock of our company;
- Each named executive officer;
- Each director; and
- All of the executive officers and directors as a group.

The number of shares of our common stock outstanding as of March 28, 2014 excludes 1,305,000 shares of our common stock issuable upon the exercise of outstanding options and warrants. Unless otherwise indicated, the persons and entities named in the table have sole voting and sole investment power with respect to the shares set forth opposite the stockholder's name, subject to community property laws, where applicable. Unless otherwise indicated, the address of each stockholder listed in the table is c/o Building A1, 68 Xinxia Street, Pinghu, Longgang, Shenzhen, Guangdong, 518111, People's Republic of China.

Name and Address of Beneficial Owner	Title	Amount and Nature of Beneficial Ownership	Percent of Class
<b><i>Directors and Executive Officers</i></b>			
Dang Yu Pan	Chief Executive Officer and Chairman of the Board	3,038,073(1)	21.7%
Wen Liang Li	Vice President, Chief Technology Officer and Director	2,114,770	15.1%
Wen Wei Ma	Vice President of Manufacturing	924,897	6.6%
Henry Sun	Chief Financial Officer and Corporate Secretary	150,000(2)	1.1%
Xin Hai Li	Director	15,000	*
T. Joseph Fisher III	Director	45,000(3)	*
Ping Li	Director	15,000	*
Officers and Directors as a Group (total of 9 persons)		6,494,770(4)	45.7%

\* Indicates beneficial ownership of less than 1.0%.

(1) Includes 269,959 shares held by a company that is 100% owned by Mr. Pan.

(2) Represents options exercisable for shares of the Company's common stock.

(3) Includes 15,000 shares underlying options.

(4) Includes shares underlying options to purchase 225,000 shares of the Company's common stock.

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

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

Hong Kong Highpower Technology Co., Ltd. (“HKHTC”), a wholly-owned subsidiary of Highpower International, Inc., and each of HKHTC’s wholly-owned subsidiaries, Shenzhen Highpower Technology Co., Ltd., Huizhou Highpower Technology Co., Ltd., Springpower Technology (Shenzhen) Company Limited and ICON have interlocking executive and director positions with the Company.

### Guarantee Agreements

Mr. Dang Yu Pan, our Chairman and Chief Executive Officer, has provided personal guarantees under certain of our outstanding banking facilities. The following table shows the amount outstanding on each of our bank loans as of December 31, 2013 and the guarantors of each loan.

Name of Bank	Amount Granted	Unused line of credit	Guaranteed by
Bank of China	\$ 16,396,130	\$ 1,922,458	Dang Yu Pan
Ping An Bank Co., Ltd	\$ 11,477,291	\$ 7,564,027	Dang Yu Pan
China Everbright Bank	\$ 9,586,162	\$ 1,382,194	Dang Yu Pan
Industrial and Commercial Bank of China	\$ 6,558,452	\$ 1,803,574	Dang Yu Pan
China Citic Bank	\$ 7,378,259	\$ 5,738,646	Dang Yu Pan
Industrial Bank Co., Ltd	\$ 8,198,065	\$ 6,558,452	Dang Yu Pan
Jiang Su Bank Co., Ltd	\$ 4,918,839	-	Dang Yu Pan
The Shanghai Commercial & Saving bank	\$ 3,000,000	1,250,000	-
Industrial and Commercial Bank of China (MACAU) LIMITED	\$ 7,093,296	3,084,294	-
Total:	\$ 74,606,494	\$ 29,303,645	

### Policy for Approval of Related Party Transactions

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

### Director Independence

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

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

The following table presents professional audit service fees and all the audit-related expenses rendered by Marcum Bernstein & Pinchuk LLP, who reviewed the Company's quarterly financial statements and audited the annual financial statements for the year ended December 31, 2013 and December 31, 2012.

	Year ended December 31,	
	2013	2012
Audit Fees(1)	\$ 218,136	\$ 198,123
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	<u>\$ 218,136</u>	<u>\$ 198,123</u>

(1) These were fees for professional services performed by Marcum Bernstein & Pinchuk LLP for the review of quarterly financial reports and audit of annual financial statements in 2013 and 2012.

#### Pre-Approval Policy

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

#### PART IV

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

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

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Shenzhen, People's Republic of China, on March 28, 2014.

### Highpower International, Inc.

(Registrant)

Dated: March 28, 2014

/s/ Dang Yu Pan

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

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

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Dang Yu Pan</u> By: Dang Yu Pan	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 28, 2014
<u>/s/ Henry Sun</u> By: Henry Sun	Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2014
<u>/s/ Wen Liang Li</u> By: Wen Liang Li	Vice President, Chief Technology Officer and Director	March 28, 2014
<u>/s/ Xin Hai Li</u> By: Xin Hai Li	Director	March 28, 2014
<u>/s/ T. Joseph Fisher III</u> By: T. Joseph Fisher III	Director	March 28, 2014
<u>/s/ Ping Li</u> By: Ping Li	Director	March 28, 2014

## EXHIBIT INDEX

Exhibit Number	Description
2.1	Share Exchange Agreement, dated as of October 20, 2007, by and among the Registrant, Hong Kong Highpower Technology Company Limited and all of the shareholders of Hong Kong Highpower Technology Company Limited (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
3.1	Certificate of Incorporation (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form 10-SB (File No. 000-52103) filed with the Securities and Exchange Commission on July 5, 2006).
3.2	Bylaws (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form 10-SB (File No. 000-52103) filed with the Securities and Exchange Commission on July 5, 2006).
3.3	Articles of Merger Effecting Name Change (incorporated by reference from Exhibit 3.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
3.4	Certificate of Amendment to Certificate of Incorporation (incorporated by reference from Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2010).
10.1	State-owned Land Use Rights Grant Contract No. 441302 – B – 112 dated as of May 23, 2007, by and between the Land and Resources Bureau of Huizhou City, Guangdong Province and Shenzhen Highpower Technology Co., Ltd. (translated to English) (incorporated by reference from Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
10.2	Comprehensive Credit Line Contract dated September 18, 2013 by and between Ping An Bank Co., Ltd. Shenzhen Xinzhou Branch and Shenzhen Highpower Technology Company Limited and corresponding guarantee contracts (translated to English).
10.2(a)	Working Capital Loan Contract dated December 3, 2013 by and between Ping An Bank Co., Ltd. Shenzhen Xinzhou Branch and Shenzhen Highpower Technology Company Limited (translated to English).
10.2(b)	Maximum Guarantee Contract between Ping An Bank Co., Ltd. Shenzhen Xinzhou Branch and Pan Dangyu
10.2(c)	Maximum Guarantee Contract between Ping An Bank Co., Ltd. Shenzhen Xinzhou Branch and Springpower Technology (Shenzhen) Company Limited
10.3	Working Capital Loan Contract dated September 17, 2013 by and between Shanghai Commercial & Savings Bank Ltd., Hong Kong Branch and Hong Kong Highpower Technology Company Limited.
10.4	Comprehensive Credit Line Contract dated September 4, 2013 by and between Bank of China Everbright Bank and Springpower Technology (Shenzhen) Company Limited and corresponding guarantee contracts (translated to English) (incorporated by reference from Exhibit 10.6 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
10.4(a)	Working Capital Loan Contract dated September 5, 2013 by and between Bank of China Everbright Bank and Springpower Technology (Shenzhen) Company Limited (translated to English) (incorporated by reference from Exhibit 10.7 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).

- 10.5 Working Capital Loan Contract dated August 30, 2013 by and between Industrial and Commercial Bank of China Limited and Shenzhen Highpower Technology Company Limited (translated to English) (incorporated by reference from Exhibit 10.3 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
- 10.6 Working Capital Loan Contract dated August 26, 2013 by and between Shanghai Commercial & Savings Bank Limited, Hong Kong Branch and Hong Kong Highpower Technology Company Limited (incorporated by reference from Exhibit 10.11 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
- 10.7 Comprehensive Credit Line Contract dated July 24, 2013 by and between Industrial Bank Co., Ltd. and Springpower Technology (Shenzhen) Company Limited and corresponding guarantee contracts (translated to English) (incorporated by reference from Exhibit 10.4 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
- 10.7(a) Working Capital Loan Contract dated July 24, 2013 by and between Industrial Bank Co., Ltd. and Springpower Technology (Shenzhen) Company Limited (translated to English) (incorporated by reference from Exhibit 10.5 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
- 10.8 Maximum Amount Comprehensive Credit Line Contract dated June 21, 2013 by and between Bank of Jiangsu, Shenzhen Sub-branch and Shenzhen Highpower Technology Company Limited and corresponding guarantee contracts (translated to English) (incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
- 10.8(a) Working Capital Loan Contract dated July 25, 2013 by and between Bank of Jiangsu, Shenzhen Sub-branch and Shenzhen Highpower Technology Company Limited (translated to English) (incorporated by reference from Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
- 10.9 Comprehensive Credit Line Contract dated June 21, 2013 by and between Bank of Jiangsu, Shenzhen Sub-branch and Springpower Technology (Shenzhen) Company Limited and corresponding guarantee contracts (translated to English) (incorporated by reference from Exhibit 10.8 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
- 10.9(a) Working Capital Loan Contract dated September 26, 2013 by and between Bank of Jiangsu, Shenzhen Sub-branch and Springpower Technology (Shenzhen) Company Limited (translated to English) (incorporated by reference from Exhibit 10.9 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
- 10.10 Comprehensive Credit Line Contract dated March 29, 2013 by and between China CITIC Bank Shenzhen Branch and Shenzhen Highpower Technology Company Limited and corresponding guarantee agreements (translated to English) (incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2013).
- 10.11 Credit Contract dated March 14, 2013 by and between Industrial and Commercial Bank of China(Macau) Limited and Hong Kong Highpower Technology Company Limited (incorporated by reference from Exhibit 10.4 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2013).
- 10.11(a) Working Capital Loan Contract dated July 29, 2013 by and between Industrial and Commercial Bank of China (Macau) Limited and Hong Kong Highpower Technology Company Limited (incorporated by reference from Exhibit 10.10 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).

- 10.12 Comprehensive Credit Line Contract dated January 25, 2013 by and between Bank of China Buji Sub-Branch and Springpower Technology Company Limited and corresponding guarantee and pledge agreements (translated to English) (incorporated by reference from Exhibit 10.3 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2013).
- 10.13 Comprehensive Credit Line Contract dated January 10, 2013 by and between Bank of China Buji Sub-Branch and Shenzhen Highpower Technology Company Limited and corresponding guarantee and pledge agreements (translated to English) (incorporated by reference from Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2013).
- 10.14\* 2008 Omnibus Incentive Plan (incorporated by reference to Appendix A to the Registrant's definitive Proxy Statement on Schedule 14A (file no. 001-34098) filed with the Securities and Exchange Commission on October 31, 2008).
- 10.14(a)\* Form of Stock Option Agreement for 2008 Omnibus Incentive Plan (incorporated by reference to Exhibit 4.2 of Form S-8 (file no.: 333-157443) filed with the Securities and Exchange Commission on February 20, 2009).
- 10.14(b)\* Form of Restricted Stock Agreement for 2008 Omnibus Incentive Plan (incorporated by reference to Exhibit 4.3 of Form S-8 (file no.: 333-157443) filed with the Securities and Exchange Commission on February 20, 2009).
- 10.14(c)\* Form of Restricted Stock Unit Agreement for 2008 Omnibus Incentive Plan (incorporated by reference to Exhibit 4.4 of Form S-8 (file no.: 333-157443) filed with the Securities and Exchange Commission on February 20, 2009).
- 10.15 Land Use Right Agreement dated January 5, 2012 by and between Ganzhou Land and Resource Bureau and Ganzhou Highpower Technology Company Limited (translated to English) (incorporated by reference from Exhibit 10.5 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2012).
- 21.1 List of Subsidiaries (incorporated by reference from Exhibit 21.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2012).
- 23.1 Consent of Marcum Bernstein & Pinchuk LLP.
- 31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

\* Denotes a management contract or compensatory plan.

\*\* 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. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**  
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### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of  
Highpower International, Inc.

We have audited the accompanying consolidated balance sheets of Highpower International, Inc. and Subsidiaries (together the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows (together the “consolidated financial statements”) for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial positions of Highpower International, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/Marcum Bernstein & Pinchuk LLP  
New York, New York  
March 31, 2014



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marcumbp.com**

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

	<i>December 31,</i> <b>2013</b>	<i>December 31,</i> <b>2012</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	7,973,459	6,627,334
Restricted cash	28,586,121	27,695,569
Accounts receivable, net	33,961,014	25,323,899
Notes receivable	1,014,891	392,242
Prepayments	4,969,743	3,223,795
Other receivables	1,063,656	802,907
Inventories	<u>19,739,360</u>	<u>16,719,807</u>
<b>Total Current Assets</b>	<u><b>97,308,244</b></u>	<u><b>80,785,553</b></u>
Property, plant and equipment, net	48,548,203	33,462,369
Land use right, net	4,421,415	4,423,348
Intangible asset, net	650,000	700,000
Deferred tax assets	802,225	762,954
Foreign currency derivatives assets	<u>63,289</u>	<u>255,508</u>
<b>TOTAL ASSETS</b>	<u><b>151,793,376</b></u>	<u><b>120,389,732</b></u>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	40,026,698	27,509,195
Deferred revenue	675,521	661,178
Short-term loan	36,142,105	20,478,604
Notes payable	25,271,256	26,397,200
Other payables and accrued liabilities	7,801,431	4,485,918
Income taxes payable	1,279,658	1,180,469
Current portion of long-term loan	<u>1,967,536</u>	<u>1,925,762</u>
<b>Total Current Liabilities</b>	<u><b>113,164,205</b></u>	<u><b>82,638,326</b></u>
Long-term loan	3,935,071	5,777,286
<b>TOTAL LIABILITIES</b>	<u><b>117,099,276</b></u>	<u><b>88,415,612</b></u>
<b>COMMITMENTS AND CONTINGENCIES</b>		

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

	<i>December 31,</i> <u>2013</u>	<i>December 31,</i> <u>2012</u>
<b>EQUITY</b>		
Stockholder's equity		
Preferred stock		
(Par value: \$0.0001, authorized: 10,000,000 shares, issued and outstanding: none)	-	-
Common stock		
(Par value: \$0.0001, authorized: 100,000,000 shares, 13,978,106 shares issued and outstanding at December 31, 2013 and 13,582,106 shares outstanding at December 31, 2012)	1,398	1,358
Additional paid-in capital	6,011,305	6,035,230
Statutory and other reserves	3,142,411	2,790,484
Retained earnings	18,390,875	17,291,584
Accumulated other comprehensive income	<u>5,848,859</u>	<u>5,049,864</u>
Total Equity for the Company's Stockholders	<u>33,394,848</u>	<u>31,168,520</u>
Non-controlling interest	1,299,252	805,600
<b>TOTAL EQUITY</b>	<b><u>34,694,100</u></b>	<b><u>31,974,120</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>151,793,376</u></b>	<b><u>120,389,732</u></b>

See notes to consolidated financial statements

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

	<i>For the year ended December 31,</i>	
	<i>2013</i>	<i>2012</i>
Net sales	132,849,822	112,648,705
Cost of sales	<u>(106,465,780)</u>	<u>(88,942,281)</u>
Gross profit	<u>26,384,042</u>	<u>23,706,424</u>
Research and development expenses	(5,711,269)	(4,611,054)
Selling and distribution expenses	(6,188,176)	(5,347,692)
General and administrative expenses, including share-based compensation	(12,092,708)	(11,478,541)
Loss on exchange rate difference	(552,669)	(220,597)
Gain on derivative instruments	<u>326,222</u>	<u>730,591</u>
Total operation expenses	<u>(24,218,600)</u>	<u>(20,927,293)</u>
Income from operations	2,165,442	2,779,131
Other income	1,538,518	630,842
Interest expenses	<u>(1,647,155)</u>	<u>(705,218)</u>
Income before taxes	<u>2,056,805</u>	<u>2,704,755</u>
Income taxes expense	<u>(718,016)</u>	<u>(1,132,340)</u>
Net income	<u>1,338,789</u>	<u>1,572,415</u>
Less: net loss attributable to non-controlling interest	(112,429)	(144,607)
Net income attributable to the Company	<u>1,451,218</u>	<u>1,717,022</u>
Comprehensive income		
Net income	1,338,789	1,572,415
Foreign currency translation gain	<u>822,600</u>	<u>532,918</u>
Comprehensive income	<u>2,161,389</u>	<u>2,105,333</u>
Less: comprehensive loss attributable to non-controlling interest	(88,824)	(146,932)
Comprehensive income attributable to the Company	<u>2,250,213</u>	<u>2,252,265</u>
Earnings per share of common stock attributable to the Company		
- Basic	<u>0.11</u>	<u>0.13</u>
- Diluted	<u>0.11</u>	<u>0.13</u>
Weighted average common shares outstanding		
- Basic	<u>13,671,169</u>	<u>13,582,106</u>
- Diluted	<u>13,687,698</u>	<u>13,582,106</u>

See notes to consolidated financial statements

**HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
(Stated in US Dollars except Number of Shares)

	<i>Preferred stock</i>	<i>Common stock</i>		<i>Additional paid-in capital</i>	<i>Statutory and other reserves</i>	<i>Retained earnings</i>	<i>Accumulated other comprehensive income</i>	<i>Non- controlling interest</i>	<i>Total</i>
		<i>Shares</i>	<i>Amount</i>						
Balance, December 31, 2011	-	13,582,106	1,358	5,831,237	2,726,390	15,638,656	4,514,621	-	28,712,262
Proceeds from non-controlling interest	-	-	-	-	-	-	-	952,532	952,532
Foreign currency translation adjustments	-	-	-	-	-	-	535,243	(2,325)	532,918
Share-based compensation expenses	-	-	-	203,993	-	-	-	-	203,993
Transfer to statutory and other reserves	-	-	-	-	64,094	(64,094)	-	-	-
Net income	-	-	-	-	-	1,717,022	-	(144,607)	1,572,415
Balance, December 31, 2012	-	13,582,106	1,358	6,035,230	2,790,484	17,291,584	5,049,864	805,600	31,974,120
Proceeds from non-controlling interest	-	-	-	(582,476)	-	-	-	582,476	-
Foreign currency translation adjustments	-	-	-	-	-	-	798,995	23,605	822,600
Share-based compensation expenses	-	396,000	40	558,551	-	-	-	-	558,591
Transfer to statutory and other reserves	-	-	-	-	351,927	(351,927)	-	-	-
Net income	-	-	-	-	-	1,451,218	-	(112,429)	1,338,789
Balance, December 31, 2013	-	13,978,106	1,398	6,011,305	3,142,411	18,390,875	5,848,859	1,299,252	34,694,100

See notes to consolidated financial statements

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

	<i>For the year ended December 31,</i>	
	<i>2013</i>	<i>2012</i>
<b>Cash flows from operating activities</b>		
Net income	1,338,789	1,572,415
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,523,583	2,090,403
Allowance for doubtful accounts	483,586	1,744,655
Loss on disposal of property, plant and equipment	263,454	71,473
Loss (gain) on derivative instruments	194,892	(236,709)
Deferred income tax	(23,410)	102,614
Share-based payment	426,779	203,993
Changes in operating assets and liabilities:		
Accounts receivable	(8,511,464)	(5,650,965)
Notes receivable	(605,229)	127,414
Prepayments	(1,656,526)	1,063,693
Other receivables	(239,801)	248,026
Inventories	(2,618,611)	(3,020,127)
Accounts payable	14,566,891	6,624,896
Deferred revenue	-	653,015
Other payables and accrued liabilities	3,178,758	(2,503,482)
Income taxes payable	72,509	754,589
<b>Net cash flows provided by operating activities</b>	<b>9,394,200</b>	<b>3,845,903</b>
<b>Cash flows from investing activities</b>		
Acquisition of plant and equipment	(19,981,373)	(11,646,583)
Acquisition of land use right	-	(1,327,754)
<b>Net cash flows used in investing activities</b>	<b>(19,981,373)</b>	<b>(12,974,337)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term bank loans	34,088,599	14,627,171
Repayment of short-term bank loans	(18,770,730)	(3,776,533)
Proceeds from notes payable	45,285,470	46,359,978
Repayment of notes payable	(46,960,375)	(38,188,330)
Repayment of letter credit	-	(2,880,000)
Proceeds from long-term bank loans	-	7,924,935
Repayment of long-term bank loans	(1,937,987)	(316,997)
Capital contribution from non-controlling interest	-	950,992
Increase in restricted cash	(350,756)	(14,696,735)
<b>Net cash flows provided by financing activities</b>	<b>11,354,221</b>	<b>10,004,481</b>
Effect of foreign currency translation on cash and cash equivalents	579,077	575,664
Net increase in cash and cash equivalents	1,346,125	1,451,711
Cash and cash equivalents - beginning of year	6,627,334	5,175,623
Cash and cash equivalents - end of year	<u>7,973,459</u>	<u>6,627,334</u>
Supplemental disclosures for cash flow information:		
Cash paid for:		
Income taxes	668,917	275,136
Interest expenses	1,647,155	1,247,217
Non-cash transactions		
Accounts payable for construction in progress	1,294,963	3,767,497

See notes to consolidated financial statements

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

**1. Principal activities and organization**

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 Co., Ltd (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. All other subsidiaries are incorporated in People's Republic of China ("PRC").

On May 15, 2013, GZ Highpower increased its paid-in capital from RMB15,000,000 (\$2,381,293) 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%.

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
Ganzhou Highpower Technology Co., Ltd ("GZ Highpower")	PRC September 21, 2010	60%	Processing, marketing and research of battery materials

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

**1. Principal activities and organization (continued)**

Name of company	Place and date incorporation	Attributable equity interest held	Principal activities
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 consolidated financial statements have been prepared in accordance with the United States generally accepted accounting principles ("U.S. GAAP").

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. Non-controlling interests represent the equity interest in the GZ Highpower that is not attributable to the Company.

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 years ended December 31, 2013 and 2012, one major customer accounted for 10% or more of total net sales. The percentage of total net sales from this one major customer in the years ended December 31, 2013 and 2012 was 10.8% and 14.8%, respectively. During the years ended December 31, 2013 and 2012, one major supplier accounted for 10% or more of total purchase amount. The percentage of total purchase amount from this one major supply in the years ended December 31, 2013 and 2012 was 12.8% and 14.0%, respectively.

None of the Company's customers accounted for 10% or more of the accounts receivable as of December 31, 2013. One of the Company's customers accounted for 16% of the accounts receivable as of December 31, 2012.

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

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

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

Restricted cash include time deposits and cash security for bank acceptance bills.

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 the 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.

Notes receivable

Notes receivable represent banks' acceptances that have been arranged with third-party financial institutions by certain customers to settle their purchases from us. These banks' acceptances are non-interest bearing and are collectible within six months.

Inventories

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

Property, plant and equipment

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

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

Buildings	2.5% - 10%
Furniture, fixtures and office equipment	20%
Leasehold improvement	50%
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 expenses 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 management founding 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 persuasive evidence of an arrangement exists, the sales price is fixed or determinable, delivery of the product has occurred, title and risk of loss have transferred to the customers and collectability of the receivable is reasonably assured. The majority of domestic sales contracts transfer title and risk of loss to customers upon receipt. The majority of overseas sales contracts transfer title and risk of loss to customers when goods were delivered to the carriers. Revenue is presented net of any sales tax and value added tax.

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.

Cost of Sales

Cost of revenues consists primarily of material costs, employee compensation, depreciation and related expenses, which are directly attributable to the production of products. Write-down of inventories to lower of cost or market is also recorded in cost of revenues.

Shipping and handling

Shipping and handling expenses are recorded as selling expenses when occurred. Shipping and handling expenses relating to sales were \$843,146 and \$699,463 respectively for the years ended December 31, 2013 and 2012.

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, maintenance of research equipment. All expenses 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, are expensed as incurred. No significant advertising expense was recorded for the years ended December 31, 2013 and 2012.

Share-Based Compensation

The Company recognizes compensation expense associated with the issuance of equity instruments to employees for their services. The fair value of the equity instruments is estimated on the date of grant and is expensed in the financial statements over the vesting period. The input assumptions used in determining fair value are the expected life, expected volatility, risk-free rate and the dividend yield.

Share-based compensation associated with the issuance of equity instruments to non-employees is measured at the fair value of the equity instrument issued or committed to be issued, as this is more reliable than the fair value of the services received. The fair value is measured at the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete.

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 December 31, 2013 and 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 are consisted solely of foreign currency translation adjustments, net of the income tax effect.

Foreign currency translation and transactions

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

Most of the Company's oversea sales are priced and settled with US\$. 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.

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

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

Segment Reporting

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. The company's reportable segments are based on products, geography, legal structure, management structure, or any other manner in which management disaggregates a company. Therefore the Company categorizes its business into three reportable segments, namely (i) Ni-MH Batteries; (ii) Lithium Batteries; and (iii) Material trading.

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.

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 did 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.

Earnings per share

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

200,000 stock options with a dilutive effect of 16,529 shares were included in the computation of diluted EPS for the year ended December 31, 2013. There were 727,500 options and warrants outstanding as of December 31, 2012 which were not included in the calculation of diluted income per share for the year ended because their effect would have been anti-dilutive for their exercise prices were above the average market values in such periods.

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

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

Recently issued accounting pronouncements

As of March 28, 2014, the Financial Accounting Standards Board (“FASB”) has issued ASU No. 2013-01 through ASU 2014-05, which are not expected to have a material impact on the consolidated financial statements upon adoption.

**3. Restricted cash**

As of December 31, 2013 and December 31, 2012, restricted cash consisted of the following:

	<i>December 31, 2013</i>	<i>December 31, 2012</i>
	\$	\$
Securities for bank acceptance bill	14,132,921	10,906,456
Time deposit	14,453,200	16,789,113
	<u>28,586,121</u>	<u>27,695,569</u>

**4. Accounts receivable, net**

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

	<i>December 31, 2013</i>	<i>December 31, 2012</i>
	\$	\$
Accounts receivable	36,467,233	27,353,677
Less: allowance for doubtful debts	<u>2,506,219</u>	<u>2,029,778</u>
	<u>33,961,014</u>	<u>25,323,899</u>

The Company experienced bad debt expenses of \$483,586 and \$1,744,655, respectively, during the years ended December 31, 2013 and 2012. The Company wrote off accounts receivables of \$19,384 and \$111,032, respectively, in the years ended December 31, 2013 and 2012.

The account receivable attributable to SZ Springpower, with a carrying amount of \$19,018,181, was pledged as collateral for bank loans as of December 31, 2013.

**5. Prepayments**

	<i>December 31, 2013</i>	<i>December 31, 2012</i>
	\$	\$
Purchase deposits paid	2,876,267	1,120,911
Advances to staff	48,499	70,882
Other deposits and prepayments	1,012,358	1,261,523
Value-added tax prepayment	<u>1,032,619</u>	<u>770,479</u>
	<u>4,969,743</u>	<u>3,223,795</u>

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

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

**6. Other receivables**

	<i>December 31,</i> <b>2013</b>	<i>December 31,</i> <b>2012</b>
	\$	\$
Deposit for land use right	518,603	507,592
Others	545,053	295,315
	1,063,656	802,907

**7. Inventories**

	<i>December 31,</i> <b>2013</b>	<i>December 31,</i> <b>2012</b>
	\$	\$
Raw materials	4,281,232	4,237,094
Work in progress	2,047,627	2,678,471
Finished goods	13,087,995	9,647,671
Packing materials	20,591	12,727
Consumables	301,915	143,844
	19,739,360	16,719,807

Where there is evidence that the utility of inventories, in their disposal in the ordinary course of business, will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels, or other causes, the inventories are written down to their fair value. .

**8. Property, plant and equipment**

	<i>December 31,</i> <b>2013</b>	<i>December 31,</i> <b>2012</b>
	\$	\$
Construction in progress	6,681,652	20,769,452
Furniture, fixtures and office equipment	3,282,818	3,066,411
Leasehold improvement	940,089	99,477
Machinery and equipment	24,600,773	15,807,695
Motor vehicles	1,430,611	1,316,717
Building	21,521,416	271,921
	58,457,359	41,331,673
Less: accumulated depreciation	9,909,156	7,869,304
	48,548,203	33,462,369

The Company recorded depreciation expenses of \$2,377,118 and \$1,950,205 for the years ended December 31, 2013 and 2012, respectively.

The capitalized interest recognized in property, plant and equipment was \$Nil and \$541,999 for the years ended December 31, 2013 and December 31, 2012.

The buildings comprising the Huizhou facilities were pledged as collateral for bank loans as of December 31, 2013. The carrying amount of the buildings was estimated to be \$10,867,411. No property, plant and equipment was pledged as collateral for bank loans as of December 31, 2012.

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

**9. Land use rights**

	<i>December 31,</i> <b>2013</b>	<i>December 31,</i> <b>2012</b>
	\$	\$
<b>Cost</b>		
Land located in Huizhou	3,520,752	3,446,001
Land located in Ganzhou	1,373,515	1,344,353
	4,894,267	4,790,354
<b>Accumulated amortization</b>	<b>(472,852)</b>	<b>(367,006)</b>
<b>Net</b>	<b>4,421,415</b>	<b>4,423,348</b>

As of December 31, 2013, land use rights of the Company included certain parcels of land located in Huizhou City, Guangdong Province, the PRC and Ganzhou City, Jiangxi Province, the PRC. The land use rights for land with area of approximately 126,605 square meters and 58,669 square meters, which will expire on May 23, 2057 and January 4, 2062, respectively.

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

2014	96,465
2015	96,465
2016	96,465
2017	96,465
2018 and thereafter	4,035,555
	4,421,415

The Company recorded amortization expenses of \$96,465 and \$90,198 for the years ended December 31, 2013 and 2012, respectively.

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

**10. Intangible asset**

	<i>December 31,</i> <b>2013</b>	<i>December 31,</i> <b>2012</b>
	\$	\$
<i>Cost of Consumer battery license fee</i>	1,000,000	1,000,000
<i>Accumulated amortization</i>	(350,000)	(300,000)
<i>Net</i>	<b>650,000</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.

As of December 31, 2013, the Company had an exclusive proprietary technology with historical cost of zero but still in use. The exclusive proprietary technology was contributed by four founding management members of GZ Highpower in exchange for the paid-in capital of GZ Highpower. The historical cost basis was recorded at \$nil at the four management members' historical cost basis.

Amortization expenses included in selling and distribution costs for the years ended December 31, 2013 and 2012 were \$50,000, and \$50,000, respectively.

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

**11. Other payables and accrued liabilities**

	<i>December 31,</i> <u>2013</u>	<i>December 31,</i> <u>2012</u>
	\$	\$
Accrued expenses	3,877,095	3,197,899
Royalty payable	582,486	570,120
VAT payable	1,406,086	59,928
Sales deposits received	1,574,258	430,503
Other payables	<u>361,506</u>	<u>227,468</u>
	<u>7,801,431</u>	<u>4,485,918</u>

**12. 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.

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 was 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 High-Tech Enterprise ("NHTE") status by the Shenzhen Tax Bureau according to the PRC Enterprise Income Tax Law. It is eligible to enjoy a preferential tax rate of 15% from 2011 to 2013. SZ Highpower will reapply for High-Tech Enterprise status in 2014. If SZ Highpower fails to obtain the approval in 2014, SZ Highpower will be subject to income tax at a rate of 25% since the calendar years 2014.

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**12. Taxation (continued)**

SZ Springpower received High-Tech Enterprise ("NHTE") status in 2013, which is valid for 3 calendar years. As a result, SZ Springpower is entitled to a preferential enterprise income tax rate of 15% from 2013 to 2015. SZ Springpower will reapply for High-Tech Enterprise status in 2016. If SZ Springpower fails to obtain the approval in 2016, SZ Springpower will be subject to income tax at a rate of 25% since the calendar years 2016.

All the other PRC subsidiaries are not entitled to any tax holiday and were subject to income tax at a rate of 25% for calendar years 2013 and 2012.

The components of the provision for income taxes expenses are:

	<i>For the year ended</i>	
	<i>December 31,</i>	
	<u>2013</u>	<u>2012</u>
	\$	\$
Current	741,426	1,029,726
Deferred	(23,410)	102,614
Total	<u>718,016</u>	<u>1,132,340</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>For the year ended</i>	
	<i>December 31,</i>	
	<u>2013</u>	<u>2012</u>
	\$	\$
Income before tax	2,056,805	2,704,755
Provision for income taxes at applicable income tax rate	484,314	747,784
Effect of preferential tax rate	(369,502)	(330,897)
Non-deductible expenses	87,945	103,099
Change in valuation allowance	515,259	612,354
Effective enterprise income tax	<u>718,016</u>	<u>1,132,340</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>For the year ended</i>	
	<i>December 31,</i>	
	<u>2013</u>	<u>2012</u>
	\$	\$
Tax loss carry-forward	2,601,823	2,025,888
Allowance for doubtful receivables	112,446	72,124
Allowance for inventory obsolescence	46,441	111,227
Fair value change of currency forwards	(9,493)	(11,372)
Difference for sales cut-off	46,824	49,364
Deferred revenue	168,880	165,295
Total gross deferred tax assets	<u>2,966,921</u>	<u>2,412,526</u>
Valuation allowance	(2,164,696)	(1,649,572)
Total net deferred tax assets	<u>802,225</u>	<u>762,954</u>

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**13. Notes payable**

Notes payable are presented to certain suppliers as a payment against the outstanding trade payables. These notes payable are bank guarantee promissory notes which are non-interest bearing and generally mature within six months. The outstanding bank guarantee promissory notes are secured by restricted cash deposited in banks. Outstanding notes payable were \$25,271,256 and \$26,397,200 as of December 31, 2013 and 2012, respectively.

**14. Short-term loans**

	<i>December 31,</i> <b>2013</b>	<i>December 31,</i> <b>2012</b>
	\$	\$
Short-term bank loans guaranteed and repayable within one year	36,142,105	20,478,604

As of December 31, 2013, the above bank borrowings were for working capital and capital expenditure purposes. \$12,478,839 of the short-term borrowings as of December 31, 2013 will be due and repayable before March 31, 2014.

The borrowings were secured by personal guarantees executed by certain directors of the Company, a land use right with carrying amount \$3,098,262, real properties with a carrying amount of \$10,867,411 and trade receivable attributable to SZ Springpower with a carrying amount of \$19,018,181.

The borrowings were primarily obtained from 9 banks with interest rates ranging from 1.5% to 7.5% per annum as of December 31, 2013. The interest expenses were \$1,128,578 and \$759,213 for the year ended December 31, 2013 and 2012, respectively.

**15. 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 December 31, 2013 and December 31, 2012:

December 31, 2013				
Lender	Starting date	Maturity date	Line of credit	Unused line of credit
			\$	\$
Industrial and Commercial Bank of China	7/26/2012	7/25/2015	6,558,452	1,803,574
China Citic Bank	3/29/2013	3/29/2014	7,378,259	5,738,646
Bank of China	1/25/2013	1/25/2014 (i)	3,689,129	247,582
Bank of China	1/10/2013	1/10/2014 (i)	12,707,001	1,674,876
China Everbright Bank	5/30/2013	5/29/2014	8,438,433	1,382,194
China Everbright Bank	9/4/2013	9/3/2014	1,147,729	-
Industrial Bank Co., Ltd	7/24/2013	7/24/2014	8,198,065	6,558,452
Jiang Su Bank Co., Ltd	6/21/2013	6/20/2014	4,918,839	-
Ping An Bank	11/12/2013	9/17/2014	11,477,291	7,564,027
Shanghai Commercial & Saving Bank	8/29/2013	8/29/2014	3,000,000	1,250,000
Industrial and Commercial Bank of China(MACAU) LIMITED	7/29/2013	1/29/2014	7,093,296	3,084,294
<b>Total</b>			<b>74,606,494</b>	<b>29,303,645</b>

(i) The lines of credit from Bank of China matured at each maturity dates. No renewal agreement was signed after maturity dates.

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**December 31, 2012**

Lender	Starting date	Maturity date	Line of credit	Unused line of credit
			\$	\$
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
Shenzhen Development 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 Citic Bank, Jiang Su Bank, Ping An Bank, Industrial Bank Co. Ltd and China Everbright 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: the borrower may not serve as a guarantor for more than double its net assets; the borrower is restricted in certain circumstances from using the loans in connection with related party transactions or other transactions with affiliates; the borrower must provide monthly reports to certain lenders describing the actual use of loans; the borrower may need to obtain approval to engage in major corporate transactions; and 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 December 31, 2013 and December 31, 2012, the Company was in compliance with all material covenants in its loan agreements.

**16. Long-term loans**

	<i>December 31,</i> <i>2013</i>	<i>December 31,</i> <i>2012</i>
	\$	\$
Long term loans from Bank of China	5,902,607	7,703,048
Less: current portion of long-term borrowings	1,967,536	1,925,762
Long-term borrowings, net of current portion	<u>3,935,071</u>	<u>5,777,286</u>

On January 13, 2012, the Company borrowed \$8,198,065 (RMB50 million) from Bank of China, which is guaranteed by the Company's Chief Executive Officer, Mr. Dang Yu Pan. It is 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 December 31, 2013. Interest expenses are to be paid quarterly.

The interest expenses were \$518,577 and \$488,004 for the year ended December 31, 2013 and 2012, respectively.

The principal is to be repaid quarterly from September 30, 2012. 2% of the principal was repaid on 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:

	\$
2014	1,967,536
2015	1,967,536
2016	1,967,535
	<u>5,902,607</u>



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**17. Share-based compensation**

2008 Omnibus Incentive Plan

The 2008 Omnibus Incentive Plan (the "2008 Plan") was approved by the Company's Board of Directors on October 29, 2008 to be effective as such date, subject to approval of the Company's stockholders which occurred 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 may 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 equal to or greater than the fair market value of the Company's common stock on the date of grant. Repricing of stock options and SARs is permitted without stockholder approval. If a particular award agreement so provides, certain change in control transactions may cause such awards granted under the 2008 Plan to vest at an accelerated rate, unless the awards are continued or substituted for in connection with the transaction. As of December 31, 2013, approximately 632,000 shares of common stock remained available for issuance pursuant to awards granted under the 2008 Plan.

**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, 2012	630,000	3.04	9.23
Granted	100,000	\$ 1.15	-
Exercised	-	-	-
Forfeited	-	-	-
Canceled	<u>(65,000)-</u>	<u>\$ 2.51-</u>	<u>-</u>
Outstanding, December 31, 2012	<u>665,000</u>	<u>\$ 2.81</u>	<u>8.35</u>
Exercisable, December 31, 2012	240,000	3.23	8.16
Vested and expected to vest, December 31, 2012	<u>636,112</u>	<u>\$ 2.82</u>	<u>8.35</u>

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**17. Share-based compensation (continued)**

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

	<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	8.35
Granted	540,000	\$ 2.63	-
Exercised	-	-	-
Forfeited	-	-	-
Canceled	(100,000)-	\$ 1.15-	-
Outstanding, December 31, 2013	<u>1,105,000</u>	<u>\$ 2.87</u>	<u>8.51</u>
Exercisable, December 31, 2013	380,000	3.14	7.19
Vested and expected to vest, December 31, 2013	<u>940,022</u>	<u>\$ 2.90</u>	<u>8.33</u>

The aggregate intrinsic value of options exercisable and options vested and expected to vest at December 31, 2013 was Nil. Intrinsic value is calculated as the amount by which the current market value of a share of common stock exceeds the exercise price multiplied by the number of option shares.

During the year ended December 31, 2013, the Company granted options to purchase 540,000 shares of common stock to 70 employees at a weighted average exercise price of \$2.63 per share. During the year ended December 31, 2013, one employee had resigned and options to purchase a total of 100,000 shares had been forfeited in accordance with the terms and conditions of the 2008 Plan.

The weighted-average fair value of options granted to employees for the year ended December 31, 2013 was \$1.81 per share as calculated using the Black-Scholes pricing model, with the following weighted-average assumptions:

	<i>For the year ended December 31,</i>	
	<u>2013</u>	<u>2012</u>
Expected volatility	79.47%	71.78%
Risk-free interest rate	1.69%	1.09%
Expected term from grant date (in years)	6.05	6.25
Dividend rate	-	-
Fair value	\$ 1.81	\$ 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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**17. Share-based compensation (continued)**

Expected Term

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

Expected Volatility

The Company has limited stock trading history and it is not able to reasonably estimate the fair value of its equity share options because it is not practicable for it to estimate the expected volatility of its share price. The expected volatilities used for the year ended December 31, 2013 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 share-based compensation expense only for those awards that are expected to vest. All share-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 share-based compensation expense only for those awards that are expected to vest.

During the year ended December 31, 2013 the Company granted 246,000 shares of restricted stock to members of the Board of Directors as Restricted stock awards ("RSA") under 2008 Plan. The RSA granted in 2013 had the following vesting periods, 30% immediately upon grant, 30% on first anniversary of grant date, and 40% on second anniversary of grant date. The RSA are governed by agreements between the Company and recipients of the awards. Terms of the agreements are determined by the Compensation Committee. There were no RSA grants prior to 2013.

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**17. Share-based compensation (continued)**

**Share-based compensation to nonemployees**

On July 15, 2013, the Company entered into an agreement with a consulting firm. In return for the consulting firm's financial advisory service in the coming two years, the Company issued an aggregate of 150,000 shares of the Company's restricted stock to the consulting firm on August 15, 2013. The restricted stocks were fully vested upon issuance. The fair value of the restricted stocks was \$171,000, which was based on the closing market price of the Company's common stock on August 15, 2013. The share-based compensation is being amortized during a two year period.

Pursuant to the above agreement, the Company would also issue another 150,000 shares of the Company's restricted stock to the consulting firm after a specific financing target is completed. Neither were the restricted stocks issued nor was the consulting firm's performance completed as of December 31, 2013. However, the consulting firm was considered to have a performance commitment as of July 15, 2013 because of sufficiently large disincentives for nonperformance. Hence, July 15, 2013 was considered to be the measurement date of the restricted stock. The fair value of the restricted stock was zero, which was the lowest aggregate amount in the case of failure to accomplish the specific financing target.

Pursuant to the above agreement, the Company would issue to the consulting firm five year warrants to purchase 200,000 shares of the Company's common stock within 180 days upon execution of the agreement in return for the financial advisory service in the coming two years. Neither were the warrants issued nor was the consulting firm's performance completed as of December 31, 2013. Besides, the consulting firm was considered to have no performance commitment because no specific target is the prerequisite of the warrants. Hence, no share-based compensation for the warrants was recognized as of December 31, 2013. The warrants were issued to the consulting firm on January 17, 2014.

The following table summarizes the restricted stock and RSA award activities for 2013:

	Number of Shares	Weighted Average Grant Date Fair Value	Remaining Contractual Term in Years
Outstanding, January 1, 2013		-	
Granted	396,000	2.18	
Released	(223,800)	1.69	
Forfeited	-	-	
Outstanding, December 31, 2013	172,200	2.81	0.95
Expected to vest, December 31, 2013	138,924	2.81	1.77

**Total share-based payment expenses**

No share-based payment expense was capitalized in the periods presented. As of December 31, 2013 the gross amount of unrecognized share-based compensation expense relating to unvested share-based compensation was approximately \$1.6 million, which the Company anticipates recognizing as a charge against income over a weighted average period of 1.90 years.

In connection with the share-based compensation to employees and nonemployees, the Company recorded charges of \$387,089 and \$39,690 and \$202,976 and \$1,017, respectively, for the years ended December 31, 2013 and 2012.

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**18. Earnings per share**

Basic earnings per common share is computed by dividing income available to common stockholders by the weighted-averages number of shares of common stock outstanding during the period. Diluted earnings per common share is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock outstanding that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, restricted shares. The dilutive effect of potential dilutive securities is reflected in diluted earnings per common share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities. The Company excludes potential common stocks in the diluted EPS computation in periods of losses from continuing operations, as their effect would be anti-dilutive.

The following tables set forth the computation of basic and diluted earnings per common share for the years ended December 31, 2013 and 2012.

	<i>Year ended December 31,</i>	
	<u>2013</u>	<u>2012</u>
	\$	\$
<b>Numerator:</b>		
Net income attributable to the Company	<u>1,451,218</u>	<u>1,717,022</u>
<b>Denominator:</b>		
Weighted-average shares outstanding		
- Basic	<u>13,671,169</u>	<u>13,582,106</u>
-diluted	<u>13,687,698</u>	<u>13,582,106</u>
<b>Earnings per common share</b>		
- Basic	<u>0.11</u>	<u>0.13</u>
- diluted	<u>0.11</u>	<u>0.13</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. 200,000 stock options with a dilutive effect of 16,529 shares were included in the computation of diluted EPS for the year ended December 31, 2013. In 2012 Stock options totaled 680,000 shares and warrants totaled 47,500 shares that could potentially dilute earnings per share in the future which were not included in the calculation of diluted earnings per share because they would have been anti-dilutive since the stock's average market price did not exceed the exercise price.

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**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 \$1,613,765 and \$1,014,648 for the years ended December 31, 2013 and 2012, respectively.

**20. Non-controlling interest**

GZ Highpower is the Company's majority-owned subsidiary which is consolidated in the Company's financial statements while with a non-controlling interest recognized. GZ Highpower is engaged in processing, marketing and research of battery materials. The Company holds 60% interest of GZ Highpower as of December 31, 2013 and 2012.

On May 15, 2013, GZ Highpower increased its paid-in capital from RMB15,000,000 (\$2,381,293) to RMB30,000,000 (\$4,807,847). SZ Highpower contributed to the increased paid-in capital with cash of RMB 9,000,000 (\$1,456,193), while the non-controlling shareholders contributed with an exclusive proprietary technology with fair value of 6,000,000 (\$970,795). The exclusive proprietary technology, however, was recorded at the four management members' historical cost basis of nil. Therefore, an increase of \$582,477, which was the 40% of the RMB 9,000,000 (\$1,456,193), was recorded in non-controlling interest.

As of December 31, 2013 and 2012, non-controlling interest related to GZ Highpower in the consolidated balance sheet was \$1,299,252 and \$805,600, respectively.

For the years ended December 31, 2013 and 2012, non-controlling interest related to GZ Highpower in the consolidated statements of operations was loss of \$112,429 and \$144,607, respectively.

**21. 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 2014 to 2017, with an option to renew the lease. All leases are on a fixed repayment basis. None of the leases include contingent rentals. Minimum future commitments under these agreements as of December 31, 2013 are as follows:

	\$
2014	1,457,262
2015	1,388,839
2016	1,332,218
2017	336,744
	4,515,063

Rent expenses for the years ended December 31, 2013 and 2012 were \$1,343,045 and \$1,269,334, respectively.

Capital commitments

The Company had contracted capital commitments of \$990,031 for the construction of the Ganzhou plant as of December 31, 2013 and \$791,934 for the construction of the Huizhou plant as of December 31, 2012.

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**22. Segment information**

The reportable segments are components of the Company which offer different products and are separately managed, with separate financial information available that is separately evaluated regularly by the Company's chief operating decision maker ("CODM") in determining the performance of the business. The Company categorizes its business into three reportable segments, namely (i) Ni-MH Batteries; (ii) Lithium Batteries; and (iii) New Materials.

The CODM evaluates performance based on each reporting segment's net sales, cost of sales, gross profit and total assets. Net sales, cost of sales, gross profit and total assets by segments is set out as follows:

	<i>For the year ended December 31,</i>	
	<u>2013</u>	<u>2012</u>
	\$	\$
<b><i>Net sales</i></b>		
Ni-MH Batteries	72,886,102	71,819,728
Lithium Batteries	57,935,104	37,957,303
New Materials	2,028,616	2,871,674
<b>Total</b>	<b><u>132,849,822</u></b>	<b><u>112,648,705</u></b>
<b><i>Cost of Sales</i></b>		
Ni-MH Batteries	59,131,594	55,739,327
Lithium Batteries	45,515,519	30,534,965
New Materials	1,818,667	2,667,989
<b>Total</b>	<b><u>106,465,780</u></b>	<b><u>88,942,281</u></b>
<b><i>Gross Profit</i></b>		
Ni-MH Batteries	13,754,508	16,080,401
Lithium Batteries	12,419,585	7,422,338
New Materials	209,949	203,685
<b>Total</b>	<b><u>26,384,042</u></b>	<b><u>23,706,424</u></b>
	<b><i>December</i></b>	<b><i>December</i></b>
	<b><u>31,2013</u></b>	<b><u>31,2012</u></b>
	\$	\$
<b><i>Total Assets</i></b>		
Ni-MH Batteries	66,960,366	64,232,869
Lithium Batteries	76,357,912	51,806,058
New Materials	8,475,098	4,350,805
<b>Total</b>	<b><u>151,793,376</u></b>	<b><u>120,389,732</u></b>

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

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

	<i>For the year ended December 31,</i>	
	<u>2013</u>	<u>2012</u>
	\$	\$
<b><i>Net sales</i></b>		
China (including Hong Kong)	78,720,514	55,427,151
Asia, others	14,905,869	14,690,026
Europe	28,606,470	26,782,320
North America	9,572,209	14,639,386
South America	490,728	526,851
Africa	362,449	204,632
Others	191,583	378,339
	<u>132,849,822</u>	<u>112,648,705</u>
	<u>December 31,</u>	<u>December 31,</u>
	2013	2012
	\$	\$
<b><i>Accounts receivable</i></b>		
China (including Hong Kong)	24,554,617	15,575,555
Asia, others	3,278,001	2,435,129
Europe	5,191,444	5,537,976
North America	863,156	1,632,644
South America	50,691	97,097
Africa	25	35,164
Others	23,080	10,334
	<u>33,961,014</u>	<u>25,323,899</u>

**23. Subsequent events**

The Company has evaluated subsequent events through the issuance of the consolidated financial statements and identified following event:

On January 17, 2014, the Company issued to a consultant five-year warrants to purchase 100,000 shares of common stock with an exercise price per share of \$3.80 and 100,000 shares with an exercise price per share of \$2.20 per share. The warrants were issued pursuant to the terms of a consulting agreement entered into in July 2013 and pursuant to which the Company also issued an aggregate of 150,000 shares of common stock on August 15, 2013.

## Comprehensive Credit Line Contract

Contract No.: PYSXZZ 20131112 No. 001

Party A (Line Grantor): PINGAN BANK CO., LTD. SHENZHEN XINZHOU BRANCH

Address: Zhongcheng Tianyi Park, Xinzhou Road, Futian District

Legal Representative (Principal): Li Jing

Tel.: 23480048

Party B (Line Applicant): SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD.

Address: Building A2, Luoshan Industrial Park, Pinghu Shanxia Villiage

Legal Representative: Pan Dangyu

Tel.:

Whereas Party B applies Party A for a comprehensive credit line, in accordance with the *Contract Law* and other relevant laws and regulations, Party A and Party B hereby make and enter into this Contract upon consensus through consultation.

### Article 1 Credit Line and Category

1.1 Amount of comprehensive credit line: Party A agrees to grant to Party B a comprehensive credit line of (Currency) RMB (in figures) 70,000,000.00 Yuan (in words) seventy million Yuan only. This line is applicable to multiple-currency credit. The exchange rate of currencies other than RMB shall be converted according to the foreign exchange rate published by Party A when the specific business occurs.

1.2 The period of the comprehensive credit line follows the following (1):

(1) From Nov. 12, 2013 to Sep. 17, 2014.

(2) \_\_\_ Year(s) \_\_\_ month(s), calculated from the date when the Contract comes into force.

During the credit period, the credit line (√) can be recycled ( ) cannot be recycled, but the sum of the balances of all the credit categories within the credit line shall not exceed the amount of the comprehensive credit line. When the credit period expires, the unused balance shall become automatically invalid.

Credit period means the occurrence period of the specific credit under a line (i.e. the period for determining the debt). The start date of the specific credit under the line must be included in the credit period and the termination date of the specific credit may exceed the credit period. The start date and termination date of the specific credit shall accord with the specific credit business contract.

1.3 The credit granting method of this credit line shall include but not be limited to:

Loan bank lending, bill acceptance and discount, overdraft, factoring, security, loan commitment and opening of L/C.

1.4 The category/credit granting method, amount, interest rate, tariff and term of the specific credit under the line shall accord with the single credit contract and IOU or other credit vouchers.

1.5 Transfer of credit under the line

Party B agrees to transfer the credit line to the following a third party to use (in other words, the following object may use the credit line), and Party B shall undertake the joint guarantee liability for the principal, interest, default interest and compound interest of all the debts (including contingent debts) under the line, and the expense for realizing the creditor's rights (including but not limited to legal cost, attorney fee, notary fee and execution fee), and other losses and expenses caused to Party A due to the debtor's breach of contract. The guarantee period shall be from the date of effectiveness of the specific credit contract to two years after the expiration of the debt performance term specified in the credit contract (including acceleration of maturity of debt).

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The specific credit-transferred object and amount are as follows:

- ( ) \_\_\_\_\_(the transferee), amount: (converted into) \_\_\_\_ (currency) (in words) ;
- ( ) \_\_\_\_\_(the transferee), amount: (converted into) \_\_\_\_ (currency) (in words) ;
- ( ) \_\_\_\_\_(the transferee), amount: (converted into) \_\_\_\_ (currency) (in words) ;

## **Article 2 Use of Credit Line**

2.1 Signature of this Contract by and between Party A and Party B shall not constitute Party A's credit commitment to Party B. Party B shall present a written application to Party A for each specific credit business under the line, and Party A shall have the right to make its own decision on whether to grant to Party B a single credit under the line. If Party A agrees to grant the single credit through examination, Party A and Party B shall make and enter into a single credit contract additionally according to the business nature.

2.2 Preconditions for use of the credit line:

- (1) Party B has handled the legal procedures (if any) for government license, approval, registration and delivery for the credit under this Contract according to relevant laws and regulations;
- (2) The related security contract is effective (if any);
- (3) Party B has paid off all the expenses related to this Contract (if any);
- (4) Party B meets the credit conditions specified herein;
- (5) There is no adverse change to the business and financial conditions of Party B and the guarantor (if any);
- (6) There is no adverse change to Party B's repayment willingness and the guarantee willingness of the guarantor (if any);
- (7) Party B has no breach of this Contract.

2.3 Party A has the right to adjust the amount of the credit line or ask Party B to add guaranty where there is any change of the exchange rate.

2.4 Party A has the right to supervise the use of the credit line and the orientation of the credit funds, and Party B shall provide coordination.

2.5 If, prior to or during the use of the credit line, Party A's regulatory department requests Party A to control the credit scale or orientation due to change of national macro-control policies, or Party A is unable to grant to Party B to use the credit line for causes not attributable to Party A, Party A shall have the right to suspend or terminate the use of this credit line and cancel this Contract, for which Party B shall have no objection.

## **Article 3 Repayment**

3.1 Party B shall open an account in Party A and deposit the amount repayable to this account prior to the specified date of repayment.

3.2 Party B shall perform the debt on time when each single credit within the line expires, or the related credit shall be deemed overdue or advances shall be made.

3.3 Party B hereby irrevocably authorizes Party A to deduct the principal and interest of the due credit and related expenses from any and all accounts opened by Party B in any banking branch of Pingan Bank.

## **Article 4 Party B's Representations and Warranties**

4.1 Party B is a company with good reputation duly established and validly existing within the jurisdiction of the location where it is located. Party B has all corporate rights and has obtained the government license and approval for conducting its current business.

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4.2 Party B has completed all the authorizations and approvals necessary for the signature of this Contract. This Contract is the presentation of Party B's true meaning and may not result in violation of any agreement or commitment concluded with any a third party. When this Contract is concluded and signed, Party B has not violate any law, regulation and rule for environmental protection, energy conservation and emission reduction, and pollution reduction, and Party B promises to strictly abide by such laws, regulations and rules after the conclusion of this Contract.

4.3 Party B is not involved in any litigation, arbitration execution, appeal and reconsideration procedure and other incident or case which may have major adverse impact on the execution of this Contract, unless otherwise Party B notified Party A in wiring prior to the conclusion of this Contract.

4.4 Party B shall, within the time limit requested by Party A, provide its financial statements, number of all opening accounts, loan balance and other relevant materials requested by Party A. Party B shall ensure the genuine, completeness and objectivity of all the documents and materials provided, which shall have no false record, misleading representation or material misstatement. The financial statements shall be prepared strictly in accordance with the Accounting Standards of China.

#### **Article 5 Party B's Rights and Obligations**

5.1 Party B shall open an account in Party A and handle deposit, settlement and other related services firstly in Party A.

5.2 If Party B is a customer group, it shall give a written report to Party A within ten days after the date of affiliated transaction of over 10% of net assets. The report contents shall include the affiliated relation between the transaction parties, transaction item and nature, transaction amount or relevant proportion, and the pricing policy (including no-money involved transaction or only symbolic-money involved transaction).

A customer group as mentioned herein shall mean an enterprise or public institution legal person who has the following features:

- (1) It directly or indirectly controls or is directly or indirectly controlled by another enterprise or public institution legal person in respect of stock right or management;
- (2) It is jointly controlled by a third party enterprise or public institution legal person;
- (3) Its principal individual investor, key manager or a close family member (including lineal blood relationship within three generations and collateral blood relationship within two generations) commonly directly or indirectly controls;
- (4) It has other affiliated relationship and may transfer the assets and profits not on the basis of fair price, which should be deemed as credit management by a customer group.

5.3 If Party B has any one of the following circumstances, it shall notify Party A thirty days in advance. If Party A thinks it will cause significant impact on the performance of the Contract, Party B shall obtain Party A's written consent in advance:

- (1) material change to Party B's operating system, equity structure, property organizational form and primary business, including but not limited to implementation of contracting, lease, joint operation, reform of shareholding system, merger, acquisition, joint venture (cooperation), division, establishment of a subsidiary, trusteeship (takeover), sales of enterprise, transfer of property rights and reduction of capital, etc.;
  - (2) disposal of important assets, of which the value exceeds 10% of the net assets, by selling, gifting, lending, transferring, mortgaging (pledging) or other means;
  - (3) its dividends exceed 30% of the net profits after tax of the current year or exceed 20% of the total undistributed profits;
  - (4) it adds external investment of over 20% of its net assets after the credit line becomes valid;
  - (5) it changes the debt clauses with other bank and pay off other long-term debt in advance;
  - (6) Party B repays its shareholder debt;
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(7) it applies other bank for a credit line, or provides a third party with security, or reduces or exempts a third party's debt, with the debt amount concerned exceeding 20% of its net assets.

5.4 Party B shall notify Party A within seven working days as of the date of occurrence or possible occurrence of the following matters, and Party A shall have the right to decide whether to request Party B to add guaranty or directly take back all the loans as the case may be:

(1) Party B or the guarantor's business or financial status is worsened, or there is significant financial loss, loss of assets (including but not limited to loss of assets caused due to external guarantee) or other financial crisis;

(2) Party B encounters administrative punishment or criminal sanction or is involved in any significant legal dispute due to its illegal business behavior;

(3) Party B, its shareholder or de facto controlling person, or the legal representative or key manager of the guarantor is involved in an important case, or its main asset goes under property preservation or other compulsory measures, or encounters administrative punishment or criminal sanction, or there is any other incident which causes Party B impossible to perform its duties normally;

(4) Party B or the guarantor provides a third party with guarantee, causing significant adverse impact on its financial condition or on the performance of its obligations under this Contract;

(5) Party B or the guarantor has the following changes, such as division, consolidation, major merger, acquisition and reconstruction, disposal of major assets, reduction of capital, winding-up, cease of business for rectification, liquidation, reorganization, being revoked, being dissolved, bankruptcy, or its business license is revoked;

(6) there is obvious reduction or loss of the guaranty value, or dispute about the ownership of the guaranty; or the guaranty is sealed up, detained, frozen, deducted, detained or sold by auction; or

(7) any other important event or default event which may affect the business activities of Party B or the guarantor and the loan safety of Party A.

5.5 If Party B changes its domicile, mailing address, telephone number, business scope, legal representative or other relevant items, it shall notify Party A in writing within seven working days after the change. In the event that Party B fails to perform the said notification obligation, the notices and documents given by Party A according to the original mailing address shall be deemed to have been served.

5.6 Party B shall keep reasonable financial ratios within the service life of the credit line.

( ) The financial indicators shall reach the following standard within the service life of the credit line: \_\_\_\_\_

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( ) 5.7 If Party B handles YIDAITONG business, Party B shall abide by the following stipulations:

(1) Party B shall open settlement accounts in Party A. Party B shall open payment collection accounts for such three pledge loans as export tax rebates, warehouse warrants and accounts receivable, and authorize Party A to deduct money directly from these accounts for repayment of this credit.

(2) When the loan is released, Party B shall open in Party A and use the corporate Internet banking product.

(3) Party B promises to give propriety to handle in Party A the increase of mortgage/pledge financing, if any.

#### **Article 6 Party A's Rights and Obligations**

6.1 From the second year after the effectiveness of a over one-year (excluding one-year) line, Party A shall have the right to evaluate the business and financial conditions of Party B and the guarantor (if any) and the progress of the specific project according to the credit conditions specified in the Contract when the credit line becomes valid, and adjust the credit line, term and interest rate according to the evaluation result.

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Where there is any mortgaged (pledged) property, Party A shall have the right to ask for valuating the mortgaged (pledged) property by an appraisal agency accepted by Party A each year. If the value of the mortgaged (pledged) property is declined obviously and is not enough for guaranteeing the debt under the Main Contract, Party A shall have the right to ask Party B to repay part of the loan or provide other guarantee measures accepted by Party A.

6.2 Party A has the right to ask Party B to provide materials related to the credit line, enter Party B's business site, investigate, review and check the use of the credit line and the assets, financial and business conditions of Party B, for which Party B shall provide coordination. Party A also has the right to supervise Party B to use the loan for the purpose specified herein.

6.3 Party A shall bear confidentiality obligation for the materials provided by Party B, except otherwise prescribed by laws and regulations, or specified by a regulatory authority or by both Parties, or non-confidential information provided by Party B.

#### **Article 7 Breach of Contract**

7.1 Any one of the following cases shall be deemed as a default event referred to herein:

- (1) There is overdue interest, overdue repayment or advance of the credit hereunder, or the credit funds are used not for the purpose specified by both Parties;
- (2) Party B violates some of its representations, warranties and commitments;
- (3) Party B violates some of its obligations performable hereunder;
- (4) Party B conceals some genuine important information;
- (5) Party B or the guarantor evades bank claims through affiliated transactions or by other means;
- (6) Party B or the guarantor has any one of the following behaviors, being negligent in managing and claiming the creditor's rights due, or disposing and transferring its main properties free of charge, or at unreasonable low price or by other improper means, or escaping debts;
- (7) Party B illegally get funds or credit from Party A or other banks by using a false contract and arrangement with a third party, including but not limited to pledge or discount of the notes receivable and other claims without actual trading background.
- (8) Party B or the guarantor violates any other contract (including but not limited to credit contract, loan contract and guarantee contract) signed with Party A or other banks or any securities with the nature of debt it issued;
- (9) Party B's guarantor violates the guarantee contract (including but not limited to guarantee contract, mortgage contract and pledge contract) or has any breach of the guarantee contract, or the guarantee contract has not taken effect, is invalid or is cancelled; or there is obvious reduction or loss of the guaranty value, or dispute about the ownership of the guaranty, or the guaranty is sealed up, detained, frozen, deducted, detained or sold by auction;
- (10) There is any case which should be notified under sub-clauses 5.3 and 5.4 herein that Party A thinks effective on the safety of its creditor's rights; or
- (11) The business term of Party B or the guarantor expires within the credit line period, and Party B or the guarantor fails to handle the procedures for renewal.

7.2 In case of any one of these default events listed in the preceding clause, Party A shall have the right to take the following actions:

- (1) To adjust, cancel or terminate the comprehensive credit line hereunder, or to adjust the period and amount of the credit line;
  - (2) To announce immediate maturity of all or part of the credit under this line; to ask Party B to repay part or all the credit principal, interest and expenses immediately, and pay default interest for the total credit principal released at the default interest rate from the date of occurrence of the default event until Party B pays off the total credit principal;
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Expenses shall include but not be limited to the attorney fee, legal cost, arbitration fee, traveling expenses, announcement cost, service fee, execution fee, transfer fee and other relevant expenses of Party A for realizing its creditor's rights.

- (3) To ask Party B to pay in full the cash deposit for paying undue acceptance, L/G, L/C or other credit business;
- (4) To ask Party B to provide new guarantee measures accepted by Party A;
- (5) To make deduction directly from the account of Party B's guarantor to repay all the debts under this Contract and the specific business contract (including the debts Party A requests for prepayment), without obtaining Party B's consent in advance;
- (6) To exercise the guarantee right, ask the guarantor to perform guarantee liability, or realize creditor's rights through disposal of the mortgaged property and/or pledged property;
- (7) Party A claims Party B's debtor for the right of subrogation or appeal to the court to revoke Party B's waiving of the creditor's right due or Party B's transfer of property free of charge or at an obviously unreasonable low price. Party B shall provide all necessary coordination and assistance according to Party A's requirements, and all the costs and expenses caused to Party A arising therefrom shall be borne by Party B;
- (8) Other remedial measures prescribed by laws and regulations and specified in the Contract.

#### **Article 8 Other Provisions**

During the period of credit granted by Party A, Party B and the guarantor shall not make profit distribution; Party B shall obtain Party A's written consent for increase of the bank credit, if any.

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#### **Article 9 Supplementary Provisions**

9.1 ( ) Both Parties agree to handle compulsory enforcement notarization for this Contract.

If Party B fails to completely or partly perform the obligations specified herein when compulsory enforcement notarization is handled by both Parties for this Contract, Party A shall have the right to apply the original notary public for an enforcement certificate, and apply the competent people's court (the people's court at the location where the person subject to enforcement lives or where the property of the person subject to enforcement is located) for enforcement holding the original notarial certificate and the enforcement certificate.

(√) No compulsory enforcement notarization shall be handled for this Contract.

9.2 The application for single credit, credit contract, IOU and credit vouchers related hereto, other relevant documents and materials confirmed by both Parties, and the commitment letter and declaration issued by Party B unilaterally to Party A shall be deemed as an integral part of this Contract and shall have the same equal legal force as this Contract.

9.3 Party B authorizes Party A to inquire Party B's credit standing including information about social insurance from the credit information database of the People's Bank of China, the credit database established upon approval by the competent credit investigation authorities, or relevant institutions, departments and individuals. The credit report acquired through inquiry may be used only within the scope prescribed by the interim measures for administration of credit information database issued by the People's Bank of China and other relevant laws and regulations. As agreed by Party B, Party A may provide Party B's credit information for the credit information database of the People's Bank of China and the credit database established upon approval by the competent credit investigation authorities.

9.4 Please confirm the options with √ in the brackets before the selected items.

9.5 Any and all disputes arising from the execution of the Contract shall be settled by both Parties through consultation. Where consultation fails, the following (2) shall be adopted for dispute settlement:

- (1) To apply \_\_\_\_\_ for arbitration in accordance with the current arbitration rules of the commission. The award of the arbitration shall be final and binding upon both Parties.
  - (2) To initiate a lawsuit in the people's court at the location where Party A is located;
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(3) To initiate a lawsuit in the people's court.

9.6 This Contract shall be governed by the laws of the People's Republic of China.

9.7 This Contract shall come into force upon the signature of all the parties hereto (signed or sealed by the authorized signatories and affixed with official seal). If Party B does not use the line within three months as of the date of effectiveness of this Contract, Party A shall have the right to cancel this Contract unilaterally.

9.8 This Contract shall be made out in 3 originals for Party A holding two and Party B, ( ) the guarantor and ( ) the registration authority each holding one.

Party B hereby represents that it has fully understood all the terms and conditions of this Contract (especially the bold fonts), and the clauses of the related guarantee contract and other relevant documents and has taken independent legal consultation (where necessary).

Party A (Seal): *PINGAN BANK CO., LTD.*: /s/ [COMPANY SEAL]

*SHENZHEN XINZHOU BRANCH*: /s/ [COMPANY SEAL]

Legal Representative (Principal) or Authorized Agent (Signature):

Date of Signature: Sep. 18, 2013

Party B (Seal) *SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD.*: /s/ [COMPANY SEAL]

Legal Representative or Authorized Agent: /s/ Dangyu Pan

Date of Signature: Sep. 18, 2013

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# Loan Contract

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## Loan Contract

Contract No.: PYSXZDZ 20131203 No. 001

( ) Out of the line

(√) Within the line Line Contract Name: Comprehensive Credit Line Contract

Line Contract No.: PYSXZZZ 20131112 No. 001

Party A (Lender): PINGAN BANK CO., LTD. SHENZHEN XINZHOU BRANCH

Address: First Floor, Zhongcheng Tianyi Park, Xinzhou Road, Futian District

Legal Representative (Principal): Li Jing

Tel.: 23480048

Party B (Borrower): SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD.

Address: Building A2, Luoshan Industrial Park, Shanxia Villiage, Pinghu Town, Longgang District, Shenzhen

Legal Representative: Pan Dangu

Tel.: \_\_\_\_\_

Whereas Party B applies Party A for a loan, in accordance with the *Contract Law* and other relevant laws and regulations, Party A and Party B hereby make and enter into this Contract upon consensus through consultation.

### Article 1 Loan

1.1 Loan amount: (currency) RMB (in figures) ¥10,000,000.00 (in words) ten million Yuan only.

1.2 Loan purpose follows the following (1):

(1) Specifically, for purchasing raw materials.

(2) Borrowing for repaying (on-lending)/restructuring, specifically as follows: repaying the credit line under \_\_\_\_\_ (contract No. and name).

1.3 The loan term is applicable to the following (2):

(1) From \_\_\_\_\_MM\_\_\_\_\_DD, \_\_\_\_\_YYYY to \_\_\_\_\_MM\_\_\_\_\_DD, \_\_\_\_\_YYYY.

(2) Twelve ( ) days (√) months ( ) years.

The actual loan amount and the start and ending date shall accord with the receipt for a loan within the scope specified in this Contract.

In the event that Party B has any event of default and Party A demands Party B to immediately repay the loan in advance, the loan shall be deemed matured when the event of default occurs.

If the loan is paid in installment, the due date for payment of a loan shall not be later than the corresponding date when a loan is paid for the first time.

1.4 Loan interest rate

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1.4.1 The loan interest rate of this Contract shall be determined according to the following standard. The loan interest rate for the first period shall follow that indicated in the receipt for a loan (please express with “√” in front of the option):

25%  higher /  lower than the benchmark interest rate for the same-grade loan issued by the People’s Bank on the date of payment of the loan.

Benchmark interest rate for the same-grade loan issued by the People’s Bank on the date of payment of the loan  + /  - \_\_\_\_\_ / \_\_\_\_\_ (floating points).

Benchmark interest rate for the same-grade loan issued by the People’s Bank on the date of payment of the loan

LIBOR  HIBOR on the date of payment of the loan  + /  - \_\_\_\_\_ / \_\_\_\_\_ (basic points) (applicable to foreign exchange loans only).

Interest shall be charged according to the actual days of the loan. Daily interest rate of loans in pound and Hong Kong dollar = annual interest rate /365; Daily interest rate of loans in other currencies = annual interest rate /360.

1.4.2 The method for adjustment of the loan interest rate under this Contract is as follows (please express with “√” in front of the option):

Adjusted by month (month /quarter /half a year/ year). The adjustment date of interest rate is the following ①

The date of every month (every month /every three months /every half a year /every year) corresponding to the date of payment of the loan; where there is no corresponding day in a month, the last day of the current month shall be taken as the adjustment date of interest rate.

Each January 1.

A fixed interest rate is executed hereunder during the loan term.

If the loan interest rate is adjusted, interest shall be calculated and charged according to the new interest rate after adjustment from the adjustment date of interest rate. However, if the loan is repaid by installment (including matching the repayment of principal and interest by period, and matching the principal repayment by period), interest in the current period shall be calculated and charged according to the interest rate before adjustment and interest after the current period shall be calculated and charged according to the interest rate after adjustment.

1.4.3 In case of adjustment of the benchmark interest rate for several times, Party A shall make adjustment according to the latest benchmark interest rate on the adjustment date. If the loan interest rate specified above is lower than the lower line of the interest rate stipulated by the People’s Bank of China after the People’s Bank of China adjusts the floating range of the benchmark interest rate, the loan interest rate hereunder shall be adjusted to be the lower line of the interest rate stipulated by the People’s Bank of China. If the People’s Bank of China does not publish the benchmark interest rate any longer, the loan interest rate hereunder shall be adjusted to the inter-bank interest rate for same-grade loans recognized or commonly used in the corresponding period, unless otherwise agreed by both Parties.

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1.4.4 In case of any national change to the interest rate determination methods, adjustment methods and interest charging methods, the relevant national provisions shall prevail.

1.4.5 Where there is any adjustment of interest rate mentioned above, Party A may not give a notice to Party B additionally.

1.5 The expiry date of interest shall be the 20<sup>th</sup> day of each month. Party B shall pay interest by (√) month ( ) quarter ( ) year ( ) others \_\_\_/\_\_. The maturity date of the loan shall be the last expiry date of interest, clearing with the principal and interests.

## **Article 2 Payment of the Loan**

2.1 Party A shall, prior to payment of the loan, have the right to review the following items and decide whether to pay the loan according to the review results:

(1) whether Party B has handled and completed all the legal formalities for government licensing, approval, registration and delivery in connection with the loan hereunder in accordance with relevant laws and regulations(if any);

(2) whether the related guarantee contract is effective (if any);

(3) whether Party B has fully paid the expenses in connection with the execution of this Contract (if any);

(4) whether Party B has met the conditions for loans specified in this Contract;

(5) whether there is any adverse change to the business and financial conditions of Party B and the guarantor (if any);

(6) whether there is any change to Party B's repayment willingness and the guarantor's guarantee willingness (if any);

(7) whether Party B has any breach of contract hereunder.

2.2 If Party A discovers during the payment process of the loan, that Party B's credit status declines, main business profitability is not strong or there is any abnormal situation during use of the loan money, Party A shall have the right to change the loan payment method or stop payment of the loan money.

2.3 If, before the payment of the loan, Party A is unable to pay the loan under this Contract due to change of national macro-control policies, or request for control of credit scale or credit orientation present by Party A's regulatory department to Party A, or due to other causes not attributable to Party A, Party A shall have the right to stop payment of the loan or cancel this Contract, to which Party B shall have no objection.

### 2.4 Payment method

Party A and Party B agree to take the following method for payment of the loan money:

(√) Payment in full by Party A upon authorization: Party A pays the loan money through Party B's account to Party B's transaction objects which are compliant with the agreed purpose according to Party B's application for money withdrawal and payment authorization.

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( ) Payment in part by Party A upon authorization: if the transaction objects are specific and the single payment amount is more than RMB \_\_\_\_ Yuan ( \_\_\_\_ Yuan included), Party A pays the loan money through Party B's account to Party B's transaction objects which are compliant with the agreed purpose according to Party B's application for money withdrawal and payment authorization; Party A pays the remaining loan money to Party B's account according to Party B's application for money withdrawal and Party B himself pays the money to his transaction objects which are compliant with the agreed purpose.

( ) Payment in full by Party B himself: Party A directly releases the loan money to Party B's account according to Party B's application for money withdrawal and Party B himself pays the money to his transaction objects which are compliant with the agreed purpose.

## 2.5 Payment management

Party A and Party B agree to make the following management on payment of the loan money:

If the method of payment upon authorization, Party B may demand Party A to pay the loan money when Party B meets the following conditions for payment:

(1) Party B has submitted a repayment application and relevant supporting materials, including business contract according to Party A's requirements, and the information about the transaction objects and payment amount, etc. listed in the payment application complies with that indicated in the supporting materials;

(2) The payment application complies with the loan purpose specified in this Contract;

(3) Party B authorizes Party A to pay the loan money to specified transaction objects;

Party A shall have the right to check whether the information about the transaction objects and payment amount, etc. listed in the payment application provided by Party B complies with that indicated in relevant supporting materials, including business contract, and shall have the right to refuse the payment application which does not comply with the loan purpose specified in this Contract.

If the method of payment by Party B himself is adopted, after payment of the loan, Party B shall give a written summary and notice to Party A to report the payment situation of the loan money by month, and provide the information about the transaction objects and payment amount, etc. and the relevant supporting materials including business contract according to Party A's requirements. Party A shall have the right to check whether payment of the loan money complies with the agreed purpose through account analysis, examination of vouchers and site investigation, and Party B shall provide coordination.

## 2.6 Conditions for change and sudden change of payment method

Under any one of the following circumstances, Party A shall have the right to adjust the standard of amount paid upon authorization or change the payment method to payment in full upon authorization:

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- (1) If the method of payment by Party B himself is adopted, and Party B fails to give a written summary and notice to Party A to report the payment situation of the loan money according to the stipulations or refuses to provide coordination for Party A for checking whether independent payment of the loan complies with the specified purpose through account analysis, examination of vouchers or site investigation;
- (2) Party B violates this Contract and evades payment by Party A upon authorization through breaking up the whole into parts;
- (3) Party B's credit status declines and its main business profitability is not strong;
- (4) There is abnormal situation in the use of the loan money;
- (5) The regulatory department adjusts the standard of payment upon authorization.

2.7 Account management

Through consultation between Party A and Party B, Party B agrees to open the following account with Party A to accept Party A's monitoring:

1. Party B agrees to open a loan payment account with Party A according to Party A's requirements. Account name: SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD.; account No.: \_\_\_\_\_. Payment and withdrawal of the loan money shall be handled through this account. Party A shall have the right to carry out dynamic monitoring of this account. Where there is any abnormal situation detected, Party A shall have the right to take relevant actions, including but not limited to freezing and stop payment, etc.

2. Party B agrees to open a capital return account with Party A according to Party A's requirements (please express with "√" in the ( ) in front of the option)

The capital return account is the same as the loan payment account as set forth in sub-clause 1 of this Article.

Capital return account name: \_\_\_\_\_; account No.: \_\_\_\_\_.

Capital return in this account shall comply with the following provisions: \_\_\_\_\_

If Party B fails to timely repay Party A the loan, Party A shall have the right to deduct money for repaying the loan principal and interest from the capital return account opened by Party B with Party A and from other accounts opened by Party B with Party A and Party A's subordinate branches.

3. Party B agrees that Party A is entitled to take back the loan in advance according to the capital return situations of Party B.

**Article 3 Repayment**

3.1 Party B shall repay the loan principal according to the following (2):

(1) Repayment of principal in installment:

Repayment of principal by  month  quarter  year. The amount repayable each period is \_\_\_\_/\_\_\_\_.

( ) Repayment of principal in installment according to the date and amount of repayment listed in Annex 1 of this Contract.

( ) Others \_\_\_\_\_ / \_\_\_\_\_.

(2) Repayment of principal in a lump sum at maturity.

3.2 If Party B repays the loan principal by month, the date of repayment of principal shall be the expiry date of interest each month after the loan is released; if Party B repays principal by quarter, the date of repayment of principal shall be the expiry date of interest every three months after the loan is released; if by year, the date of repayment of principal shall be the expiry date of interest every twelve months after the loan is released.

3.3 Party B shall open an account in Party A and deposit the amount repayable to this account prior to the specified date of repayment.

3.4 Party B shall repay the loan principal and interest under this Contract on time and in full. If Party B fails to repay loan money in any period on time and in full, Party A shall have the right to demand Party B to repay the total loan and charge default interest for the loan not repaid from the date of overdue.

3.5 Party B hereby irrevocably authorizes Party A to deduct loan principal and interest due and related expenses from any account opened by Party B in any banking branch of Pingan Bank.

3.6 Should Party B make repayment in advance, Party B shall present a written application to Party A thirty (30) days in advance and obtain Party A's written consent. The written application for early repayment shall be deemed irrevocable upon Party A's written consent.

( ) If Party B makes repayment in advance, Party B shall pay Party A compensation. Party B shall pay such compensation while Party B pays Party A the loan principal and interest payable in advance. The amount of compensation shall be calculated according to the amount of prepayment  $\times$  number of days prepaid  $\times$  interest rate specified in this Contract. If Party B prepays the loan for less than thirty (30) days in advance, compensation shall be calculated according to the actual days and half shall be charged; if for more than thirty (30) days, compensation shall be calculated according to thirty (30) days.

#### **Article 4 Party B's Representations and Warranties**

4.1 Party B is a company with good reputation duly established and validly existing within the jurisdiction of the location where it is located. Party B has all corporate rights and has obtained the government license and approval for conducting its current business.

4.2 Party B has completed all the authorizations and approvals necessary for the signature of this Contract. This Contract is the presentation of Party B's true meaning and may not result in violation of any agreement or commitment concluded with any a third party. When this Contract is concluded and signed, Party B has not violate any law, regulation and rule for environmental protection, energy conservation and emission reduction, and pollution reduction, and Party B promises to strictly abide by such laws, regulations and rules after the conclusion of this Contract.

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4.3 Party B is not involved in any litigation, arbitration execution, appeal and reconsideration procedure and other incident or case which may have major adverse impact on the execution of this Contract, unless otherwise Party B notified Party A in writing prior to the conclusion of this Contract.

4.4 Party B shall, within the time limit requested by Party A, provide its financial statements, number of all opening accounts, loan balance and other relevant materials requested by Party A. Party B shall ensure the genuine, completeness and objectivity of all the documents and materials provided, which shall have no false record, misleading representation or material misstatement. The financial statements shall be prepared strictly in accordance with the Accounting Standards of China.

#### **Article 5 Party B's Rights and Obligations**

5.1 Party B shall have the right to demand Party A to pay Party B the loan according to the conditions specified in this Contract. However, if Party A is unable to pay the loan under this Contract due to change of national macro-control policies, or request for control of credit scale or credit orientation present by Party A's regulatory department to Party A, or due to other causes not attributable to Party A, Party A shall have the right to stop payment of the loan or cancel this Contract.

5.2 Party B shall use the loan according to the purpose specified in this Contract and repay the loan principal and interest on time and in full.

5.3 Party B shall open an account in Party A and handle deposit, settlement and other related services firstly in Party A.

5.4 If Party B is a customer group, it shall give a written report to Party A within ten days after the date of affiliated transaction of over 10% of net assets. The report contents shall include the affiliated relation between the transaction parties, transaction item and nature, transaction amount or relevant proportion, and the pricing policy (including no-money involved transaction or only symbolic-money involved transaction).

A customer group as mentioned herein shall mean an enterprise or public institution legal person who has the following features:

- (1) It directly or indirectly controls or is directly or indirectly controlled by another enterprise or public institution legal person in respect of stock right or management;
- (2) It is jointly controlled by a third party enterprise or public institution legal person;
- (3) Its principal individual investor, key manager or a close family member (including lineal blood relationship within three generations and collateral blood relationship within two generations) commonly directly or indirectly controls;
- (4) It has other affiliated relationship and may transfer the assets and profits not on the basis of fair price, which should be deemed as credit management by a customer group.

5.5 If Party B has any one of the following circumstances, it shall notify Party A thirty days in advance. If Party A thinks it will cause significant impact on the performance of the Contract, Party B shall obtain Party A's written consent in advance:

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(1) material change to Party B's operating system, equity structure, property organizational form and primary business, including but not limited to implementation of contracting, lease, joint operation, reform of shareholding system, merger, acquisition, joint venture (cooperation), division, establishment of a subsidiary, trusteeship (takeover), sales of enterprise, transfer of property rights and reduction of capital, etc.;

(2) disposal of important assets, of which the value exceeds 10% of the net assets, by selling, gifting, lending, transferring, mortgaging (pledging) or other means;

(3) its dividends exceed 30% of the net profits after tax of the current year or exceed 20% of the total undistributed profits;

(4) it adds external investment of over 20% of its net assets after the credit line becomes valid;

(5) it changes the debt clauses with other bank and pay off other long-term debt in advance;

(6) Party B repays its shareholder debt; or

(7) it applies other bank for a credit line, or provides a third party with security, or reduces or exempts a third party's debt, with the debt amount concerned exceeding 20% of its net assets.

5.6 Party B shall notify Party A within seven working days as of the date of occurrence or possible occurrence of the following matters, and Party A shall have the right to decide whether to request Party B to add guaranty or directly take back all the loans as the case may be:

(1) Party B or the guarantor's business or financial status is worsened, or there is significant financial loss, loss of assets (including but not limited to loss of assets caused due to external guarantee) or other financial crisis;

(2) Party B encounters administrative punishment or criminal sanction or is involved in any significant legal dispute due to its illegal business behavior;

(3) Party B, its shareholder or de facto controlling person, or the legal representative or key manager of the guarantor is involved in an important case, or its main asset goes under property preservation or other compulsory measures, or encounters administrative punishment or criminal sanction, or there is any other incident which causes Party B impossible to perform its duties normally;

(4) Party B or the guarantor provides a third party with guarantee, causing significant adverse impact on its financial condition or on the performance of its obligations under this Contract;

(5) Party B or the guarantor has the following changes, such as division, consolidation, major merger, acquisition and reconstruction, disposal of major assets, reduction of capital, winding-up, cease of business for rectification, liquidation, reorganization, being revoked, being dissolved, bankruptcy, or its business license is revoked;

(6) there is obvious reduction or loss of the guaranty value, or dispute about the ownership of the guaranty; or the guaranty is sealed up, detained, frozen, deducted, detained or sold by auction; or

(7) any other important event or default event which may affect the business activities of Party B or the guarantor and the loan safety of Party A.

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5.7 If Party B changes its domicile, mailing address, telephone number, business scope, legal representative or other relevant items, it shall notify Party A in writing within seven working days after the change. In the event that Party B fails to perform the said notification obligation, the notices and documents given by Party A according to the original mailing address shall be deemed to have been served.

5.8 Party B shall keep reasonable financial ratios within the loan term.

( ) The financial indicators shall reach the following standard within the loan term:

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#### **Article 6 Party A's Rights and Obligations**

6.1 Party A shall have the right to take back the debt principal and interest (including compound interest, and default interest for overdue and appropriation) and charge the expenses payable by Party A, and shall be entitled to deduct the said principal, interest and expenses directly from Party B's account.

6.2 From the second year after the effectiveness of a over one-year (excluding one-year) loan, Party A shall have the right to evaluate the business and financial conditions of Party B and the guarantor and the specific project progress according to the conditions for loans specified in this Contract when the loan is released, and adjust the loan amount, term and interest rate according to the evaluation result.

Where there is any mortgaged (pledged) property, Party A shall have the right to ask for reevaluating the mortgaged (pledged) property by an appraisal agency accepted by Party A each year. If the value of the mortgaged (pledged) property is declined obviously and is not enough for guaranteeing the debt under the Main Contract, Party A shall have the right to ask Party B to repay part of the loan or provide other guarantee measures accepted by Party A.

6.3 Party A shall have the right to ask Party B to provide materials related to the loan, enter Party B's business site, investigate, review and check the use of the credit line and the assets, financial and business conditions of Party B, for which Party B shall provide coordination. Party A shall also have the right to supervise Party B to use the loan for the purpose specified herein.

6.4 Party A shall bear confidentiality obligation for the materials provided by Party B, except otherwise prescribed by laws and regulations, or specified by a regulatory authority or by both Parties, or non-confidential information provided by Party B.

#### **Article 7 Breach of Contract**

7.1 Any one of the following cases shall be deemed as a default event referred to herein:

(1) Party B fails to use the loan money according to the method specified herein or evades payment upon authorization as set forth in sub-clause 2.5 of this Contract through breaking up the whole into parts;

(2) There is overdue interest, overdue repayment or advance of the credit hereunder, or the credit funds are used not for the purpose specified by both Parties;

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- (3) Party B violates some of its representations, warranties and commitments;
- (4) Party B violates some of its obligations performable hereunder;
- (5) Party B conceals some genuine important information;
- (6) Party B or the guarantor evades bank claims through affiliated transactions or by other means;
- (7) Party B or the guarantor has any one of the following behaviors, being negligent in managing and claiming the creditor's rights due, or disposing and transferring its main properties free of charge, or at unreasonable low price or by other improper means, or escaping debts;
- (8) Party B illegally get funds or credit from Party A or other banks by using a false contract and arrangement with a third party, including but not limited to pledge or discount of the notes receivable and other claims without actual trading background.
- (9) Party B or the guarantor violates any other contract (including but not limited to credit contract, loan contract and guarantee contract) signed with Party A or other banks or any securities with the nature of debt it issued;
- (10) Party B's guarantor violates the guarantee contract (including but not limited to guarantee contract, mortgage contract and pledge contract) or has any breach of the guarantee contract, or the guarantee contract has not taken effect, is invalid or is cancelled; or there is obvious reduction or loss of the guaranty value, or dispute about the ownership of the guaranty, or the guaranty is sealed up, detained, frozen, deducted, detained or sold by auction; or
- (11) There is any case which should be notified under sub-clauses 5.5 and 5.6 herein that Party A thinks effective on the safety of its creditor's rights.

7.2 In case of any one of these default events listed in the preceding clause, Party A shall have the right to take the following actions:

- (1) To stop or terminate the release of any loan money not released under this Contract;
- (2) To announce acceleration of maturity of the credit line; to ask Party B to repay part or all the credit principal, interest and expenses immediately, and pay default interest for the total credit principal released at the default interest rate from the date of occurrence of the default event until Party B pays off the total credit principal;

Expenses shall include but not be limited to the attorney fee, legal cost, arbitration fee, traveling expenses, announcement cost, service fee, execution fee, transfer fee and other relevant expenses of Party A for realizing its creditor's rights.

- (3) To ask Party B to provide new guarantee measures accepted by Party A;
  - (4) To adjust the loan amount, term and interest rate according to the conditions of loan risks, and change the loan payment method to payment upon authorization;
  - (5) To make deduction directly from the account of Party B and the guarantor to repay all the debts under this Contract and the specific business contract (including the debts Party A requests for prepayment), without obtaining Party B's consent in advance;
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(6) To exercise the guarantee right, ask the guarantor to perform guarantee liability, or realize creditor's rights through disposal of the mortgaged property and/or pledged property;

(7) If Party B fails to repay the loan according to the stipulations when the loan is matured or is matured earlier, Party A shall have the right to charge additional 50% of the interest rate specified herein as default interest for the loan principal from the date of overdue according to the actual days of overdue. If Party B fails to use the loan according to the specified purpose, from the date when Party B uses the loan in violation of this Contract, Party A shall have the right to charge additional 100% of the interest rate specified herein as default interest for the loan amount which is appropriated.

In case of any interest which cannot be paid on time, compound interest shall be charged according to the default interest rate. Meanwhile, default interest and compound interest shall be recharged for delayed and appropriated loans.

If the loan is delayed for less than ninety (90) days (including ninety (90) days), the priority for repayment of the loan principal and interest is as follows: (1) costs and expenses; (2) interest (including default interest and compound interest); (3) principal. If the loan is delayed for more than ninety (90) days, the priority for repayment of the loan principal and interest is as follows: (1) costs and expenses; (2) principal; (3) interest (including default interest and compound interest).

(8) Party A claims Party B's debtor for the right of subrogation or appeal to the court to revoke Party B's waiving of the creditor's right due or Party B's transfer of property free of charge or at an obviously unreasonable low price. Party B shall provide all necessary coordination and assistance according to Party A's requirements, and all the costs and expenses caused to Party A arising therefrom shall be borne by Party B; or

(9) Other remedial measures prescribed by laws and regulations and specified in the Contract.

#### **Article 8 Other Provisions**

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#### **Article 9 Supplementary Provisions**

9.1 If the credit line under this Contract belongs to the line under the Line Contract, the guarantee method under the Line Contract shall also be applicable. 9.2 ( ) Both Parties agree to handle compulsory enforcement notarization for this Contract.

If Party B fails to completely or partly perform the obligations specified herein when compulsory enforcement notarization is handled by both Parties for this Contract, Party A shall have the right to apply the original notary public for an enforcement certificate, and apply the competent people's court (the people's court at the location where the person subject to enforcement lives or where the property of the person subject to enforcement is located) for enforcement holding the original notarial certificate and the enforcement certificate.

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(√) No compulsory enforcement notarization shall be handled for this Contract.

9.3 The application for single credit, credit contract, receipt for a loan and credit vouchers related hereto, other relevant documents and materials confirmed by both Parties, and the commitment letter and declaration issued by Party B unilaterally to Party A shall be deemed as an integral part of this Contract and shall have the same equal legal force as this Contract.

9.4 Party B hereby agrees and authorizes Party A to, during Party B's credit business application period and the business duration period, inquire Party B's credit information which has been entered into the financial credit information database and other credit agencies established through approval by the regulatory administration of the credit information system of the State Council, for Party B's credit business application and follow-up management. Party B hereby agrees and authorizes Party A to, according to the provisions of the *Regulations on Administration of Credit Information Industry*, report Party B's enterprise information and credit information, including but not limited to credit information and the information constituting adverse impact on the credit status of the information agents, to the financial credit information database and other credit agencies established through approval by the regulatory administration of the credit information system of the State Council.

9.5 Please confirm the options with √ in the brackets before the selected items.

9.6 Any and all disputes arising from the execution of the Contract shall be settled by both Parties through consultation. Where consultation fails, the following (2) shall be adopted for dispute settlement:

(1) To apply \_\_\_\_\_ / \_\_\_\_\_ for arbitration in accordance with the current arbitration rules of the commission. The award of the arbitration shall be final and binding upon both Parties.

(2) To initiate a lawsuit in the people's court at the location where Party A is located;

(3) To initiate a lawsuit in the people's court of \_\_\_\_ / \_\_\_\_.

9.7 This Contract shall be governed by the laws of the People's Republic of China.

9.8 This Contract shall come into force upon the signature of all the parties hereto (signed or sealed by the authorized signatories and affixed with official seal). If the loan hereunder is actually not released within three months as of the date of effectiveness of this Contract, Party A shall have the right to cancel this Contract unilaterally.

9.9 This Contract shall be made out in three (3) originals for Party A holding two (2) and Party B, ( ) the guarantor and ( ) the registration authority each holding one (1).

Party B hereby represents that it has fully understood all the terms and conditions of this Contract (especially the bold fonts), and the clauses of the related guarantee contract and other relevant documents and has taken independent legal consultation (where necessary).

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Annex 1:

**Loan Principal Repayment Schedule**

Time	Date of repayment	Amount of repayment (in words)
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

Party A (Seal): *PINGAN BANK CO., LTD. SHENZHEN XINZHOU BRANCH*

/s/ [COMPANY SEAL]

Legal Representative (Principal) or Authorized Agent (Signature):

Date of Signature: Dec. 3, 2013

Party B (Seal): *SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD.*

/s/ [COMPANY SEAL]

Legal Representative (Principal) or Authorized Agent (Signature):

/s/ Dangyu Pan

Date of Signature: Dec. 3, 2013

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## Maximum Guarantee Contract

Contract No.: PYSXZEBZ 20131112 No. 001-2

Party A (Creditor): PINGAN BANK CO., LTD. SHENZHEN XINZHOU BRANCH

Address: Zhongcheng Tianyi Park, Xinzhou Road, Futian District

Tel.: 23480048

Fax: 23480054

Principal: Li Jing

Position: President

Party B (Guarantor): Pan Dangyu

Certificate Type \*: Identity card

Certificate No. \*: 430104196803184316

(The contents expressed with "\*" may not be written if Party B is an unit)

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

Tel.: \_\_\_\_\_

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

Legal Representative \*\*: Pan Dangyu

Position \*\*: \_\_\_\_\_

(The contents expressed with "\*\*" may not be written if Party B is an individual)

Whereas Party B is willing to act as the Guarantor of Party A and provide Party A with maximum joint liability guarantee in order to ensure the execution of the contract between Party A and SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD. (hereinafter referred to as the Debtor), IN WITNESS WHEREOF, Party A and Party B hereby agree to conclude and sign this Contract upon consensus through consultation between both Parties. Both Parties shall abide by the following terms and conditions.

### Article 1 Guarantee and Guarantee Liability

#### 1.1 Scope of guarantee

The scope of guarantee hereunder is as follows (expressed with "√" in front of the option):

(√) The principal, interest, compound interest and default interest of all the debts (including contingent debts), and the expenses for realizing the creditor's rights which shall be borne by the Debtor under the Comprehensive Credit Line Contract of PYSXZZ 20131112 No. 001 (hereinafter referred to as "the Main Contract"). The maximum principal (balance) of the debts shall be (converted into) RMB (currency) (in words) seventy million Yuan only.

( ) (Converted into) (currency) (in words) of the principal of all the debts (including contingent debts) (converted into) (currency) (in words) , and the corresponding interest, compound interest and default interest, and the expenses for realizing the creditor's rights which shall be borne by the Debtor under the Contract of PY\_No\_(hereinafter referred to as "the Main Contract"). **Party A shall have the right to ask Party B to bear guarantee liability for the debt balance within the aforesaid scope of guarantee as long as the debts under the Main Contract are not fully repaid.**

( ) Performance of the debts under all the credit line contracts and specific credit business contracts (hereinafter referred to as "the Main Contract") concluded and signed by and between the Debtor and Party A dated from YYYY MM DD to YYYY MM DD. The date of signature of the Main Contract shall be within this period and the execution period of the Main Contract is not limited to this period. The scope of Party B's maximum guarantee shall include the principal, interest, compound interest and default interest of all the debts (including contingent debts), and the expenses for realizing the creditor's rights which shall be borne by the Debtor under the Main Contract. The maximum principal (balance) of the said debts shall be (converted into) (currency) (in words) .

( ) The principal of the debts not fully repaid by the Debtor (converted into) (currency) (in words) , and the interest, compound interest and default interest thereof, and the expenses for realizing the creditor's rights under the Contract of PY\_No\_(hereinafter referred to as "the Main Contract").

---

( ) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Interest, default interest and compound interest shall be calculated according to the stipulations of the Main Contract until the debts are fully repaid. The expenses for realizing the creditor's rights shall include but not be limited to announcement cost, delivery fee, appraisal fee, attorney fee, legal cost, traveling expenses, evaluation fee, auction fee, property preservation cost and enforcement fee.**

The exchange rate of currencies other than RMB shall be converted according to the foreign exchange rate published by Party A when the specific business occurs.

1.2 Guarantee period of this Contract:

(√) The guarantee period hereunder shall be from the date of effectiveness of this Contract to two years after the expiration of the debt performance term specified in the Main Contract. The guarantee period of each specific credit business shall be calculated separately. In case of extension of any specific credit, the guarantee period shall be extended to two years after the expiration of the extended term.

( ) The guarantee period hereunder shall be from the date of release of the loan under the Main Contract to the date when handles and completes the procedures for real estate mortgage registration taking Party A as the mortgagee and the relevant ownership certificates are submitted to Party A.

( ) The guarantee period hereunder shall be from the date of effectiveness of this Contract to \_\_\_\_\_

( ) \_\_\_\_\_  
\_\_\_\_\_

If Party A transfers its creditor's rights to a third person by law during the guarantee period, Party B hereby agrees to bear guarantee liability within the original scope of guarantee.

**1.3 If the Debtor transfers its credit line granted by Party A to a third party to use, Party B hereby agrees to bear guarantee liability for the transferred part according to the stipulations of this Contract.** The specific credit-transferred object and amount are as follows:

1. \_\_\_\_\_(the transferee), amount: (converted into) \_\_\_\_\_(currency) (in words) ;
2. \_\_\_\_\_(the transferee), amount: (converted into) \_\_\_\_\_(currency) (in words) ;
3. \_\_\_\_\_(the transferee), amount: (converted into) \_\_\_\_\_(currency) (in words) ;
4. \_\_\_\_\_

**1.4 Party B shall bear guarantee liability hereunder independently. Party A shall have the priority to ask Party B to bear guarantee liability no matter whether there is any security or guarantee provided by the guarantor (including the debtor of the Main Contract). If Party A waives the guarantee right for the guaranteed property (including the guaranteed property provided by the Debtor) or for other guarantors, Party B shall also take full guarantee liability according to the stipulations of this Contract.**

**1.5 This Contract is an irrevocable contract.**

**1.6 The validity of this Contract is independent from the Main Contract. In case of invalidity of the Main Contract or any clause of the Main Contract, this Contract shall remain in force.**

\_\_\_\_\_

## Article 2 Performance of Guarantee Liability

2.1 If the Debtor fails to perform any matured debt (including matured in advance, same below) under the Main Contract, Party B ensures to repay the debt unconditionally after the receiving of a written payment notice from Party A. Any document about the Debtor's failure to perform any matured debt given by Party A shall be deemed as a written payment notice that Party A asks Party B to make payment.

2.2 **Party B hereby irrevocably authorizes Party A to deduct the principal and interest of the Debtor's matured debt and related expenses directly from any and all accounts opened by Party B in any banking branch of Pingan Bank. Party A shall notify Party B in writing after this deduction and shall have the right to continuously claim Party B for the insufficient part.** If the amount deducted is not enough to repay all the matured debts and the Debtor delays for less than 90 days (including 90 days), the repayment priority of principal and interest is as follows: (1) expenses; (2) interest (including default interest and compound interest); (3) principal. If the Debtor delays for more than 90 days, the repayment priority of the principal and interest of the advance payment is as follows: (1) expenses; (2) principal; (3) interest (including default interest and compound interest).

## Article 3 Guarantor's Warranties and Commitments

3.1 Party B has completed all the authorizations and approvals necessary for the signature of this Contract. This Contract is the presentation of Party B's true meaning and may not result in violation of any agreement or commitment concluded with any a third party. When this Contract is concluded and signed, Party B has not violate any law, regulation and rule for environmental protection, energy conservation and emission reduction, and pollution reduction, and Party B promises to strictly abide by such laws, regulations and rules after the conclusion of this Contract.

3.2 Party B is not involved in any litigation, arbitration, execution, appeal and reconsideration procedure and other incident or case which may have major adverse impact on the execution of this Contract, unless otherwise Party B notified Party A in wiring prior to the conclusion of this Contract.

3.3 The following provisions are applicable if Party B is a legal person:

3.3.1 Party B is a company with good reputation duly established and validly existing within the jurisdiction of the location where it is located. Party B has all corporate rights and has obtained the government license and approval for conducting its current business.

3.3.2 Party B shall, within the time limit requested by Party A, provide its financial statements, number of all opening accounts, loan balance and other relevant materials requested by Party A. Party B shall ensure the genuine, completeness and objectivity of all the documents and materials provided, which shall have no false record, misleading representation or material misstatement. The financial statements shall be prepared strictly in accordance with the Accounting Standards of China.

3.4 The following provisions are applicable if Party B is an individual:

3.4.1 Party B has provided his personal and family incomes and properties, and other relevant materials required by Party A, and Party B warrants the genuine, completeness and accuracy of the documents and materials that Party B has provided.

3.4.2 Party B warrants coordinating Party A to supervise and inspect the incomes and credit conditions of Party B. If Party A thinks the loan guarantee conditions worsened during the execution period of this Contract, Party B shall provide other guarantee measures accepted by Party A.

## Article 4 Guarantor's Rights and Obligations

4.1 Party B shall have the right to ask Party A to bear confidentiality obligation for the materials provided by Party B, except otherwise prescribed by laws and regulations, or specified by a regulatory authority or by both Parties, or non-confidential information provided by Party B.

4.2 **Party B has carefully read the Main Contract and confirmed all the clauses of the Main Contract. Party B may not confirm the single credit contract or IOU or other credit business voucher under the Main Contract which does not exceed the specification of the Main Contract.**

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**Party A and the Debtor may not obtain Party B's consent for change of the Main Contract. Party B shall continuously bear joint guarantee liability for the Main Contract after change. However, if the principal of the debit is increased and the loan term is extended without Party B's written consent, Party B shall continuously bear guarantee liability according to the amount and term originally specified in the Main Contract.**

4.3 Party B shall accept and ensure to coordinate Party A to supervise and inspection Party B's management situations and guarantee capacity. Party B shall allow Party A to enter Party B's business site for inspecting Party B's assets, financial status and management situations.

4.4 ( ) In case of transfer of major property rights, system change or transfer of claims and debts occurring to Party B, Party B shall notify Party A of the relevant issues in advance and obtain Party A's written consent prior to such change.

( ) If Party B has any one of the following circumstances, it shall notify Party A thirty days in advance. If Party A thinks it will cause significant impact on the performance of the Contract, Party B shall obtain Party A's written consent in advance:

(1) material change to Party B's operating system, equity structure, property organizational form and primary business, including but not limited to implementation of contracting, lease, joint operation, reform of shareholding system, merger, acquisition, joint venture (cooperation), division, establishment of a subsidiary, trusteeship (takeover), sales of enterprise, transfer of property rights and reduction of capital, etc.;

(2) disposal of important assets, of which the value exceeds 10% of the net assets, by selling, gifting, lending, transferring, mortgaging (pledging) or other means;

(3) its dividends exceed 30% of the net profits after tax of the current year or exceed 20% of the total undistributed profits;

(4) it adds external investment of over 20% of its net assets after the Contract becomes valid;

(5) it changes the debt clauses with other bank and pay off other long-term debt in advance;

(6) Party B repays its shareholder debt; or

(7) it applies other bank for a credit line, or provides a third party with security, or reduces or exempts a third party's debt, with the debt amount concerned exceeding 20% of its net assets.

**4.5 Party B shall notify Party A within seven working days as of the date of occurrence or possible occurrence of the following matters, and Party A shall have the right to decide whether to request Party B and the Debtor to add guaranty or directly take back all the loans as the case may be:**

(1) business or financial status is worsened;

(2) Party B is highly fined by a competent authority or is involved in major legal dispute;

(3) Party B, its shareholder, its legal representative or key manager is involved in an important case, or Party B's main asset goes under property preservation or other compulsory measures; or there is any other incident which causes Party B's legal representative or key manager impossible to perform his duties normally;

(4) Party B provides a third party with guarantee, causing significant adverse impact on its financial condition or on the performance of its obligations under this Contract;

(5) Party B goes into winding-up, ceasing of its operation for reorganization, dissolution, closedown or bankruptcy, or its business license is revoked;

(6) its economic conditions become bad, such as unemployment, unit bankruptcy, or major loss of personal property, major adverse change of personal physical health, divorce with spouse, and other matters which may affect Party B's capacity to perform this Contract; or

(7) any other important event or default event which may affect the business activities of Party B and the loan safety of Party A.

4.6 If Party B changes its domicile, mailing address, telephone number, business scope, legal representative (work unit) or other relevant items, it shall notify Party A in writing within seven working days after the change. In the event that Party B fails to perform the said notification obligation, the notices and documents given by Party A according to the original mailing address shall be deemed to have been served.

4.7 ( ) Party B shall keep reasonable financial ratios within the loan term.

( ) The financial indicators shall reach the following standard within the loan term:

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## Article 5 Breach of Contract

### 5.1 Any one of the following cases shall be deemed as a default event referred to herein:

- (1) Party B fails to perform the compensative liability on time and in full;
- (2) Party B violates some of its warranties and commitments or has any other behavior not performing the obligations hereunder;
- (3) Party B transfers its property or draws out capital;
- (4) Party B has breach of contract under other contracts signed and concluded with Party A or any other banks; or
- (5) there is any major adverse change of Party B's business and financial status.

### 5.2 In case of any one of these default events listed in the preceding clause, Party A shall have the right to take the following actions:

- (1) To ask Party B to perform the compensative liability immediately;
- (2) To ask Party B to provide new guarantee measures accepted by Party A;
- (3) Party A claims Party B's debtor for the right of subrogation or appeal to the court to revoke Party B's waiving of the creditor's right due or Party B's transfer of property free of charge or at an obviously unreasonable low price. Party B shall provide all necessary coordination and assistance according to Party A's requirements, and all the costs and expenses caused to Party A arising therefrom shall be borne by Party B; or
- (3) Other remedial measures prescribed by laws and regulations.

## Article 6 Other Provisions

( ) The *Bank Enterprise Guarantee Business Cooperation Agreement* (hereinafter referred to as the Agreement) concluded and signed by and between Party A and Party B is a fundamental legal document for standardizing the relation of rights and obligations between both Parties. In case of any discrepancy between this Contract and the Agreement, the Agreement shall prevail.

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## Chapter 7 Supplementary Provisions

7.1 ( ) Both Parties agree to handle compulsory enforcement notarization for this Contract.

If Party B fails to completely or partly perform the obligations specified herein when compulsory enforcement notarization is handled by both Parties for this Contract, Party A shall have the right to apply the original notary public for an enforcement certificate, and apply the competent people's court (the people's court at the location where the person subject to enforcement lives or where the property of the person subject to enforcement is located) for enforcement holding the original notarial certificate and the enforcement certificate.

(√) No compulsory enforcement notarization shall be handled for this Contract.

7.2 Party B authorizes Party A to inquire Party B's credit standing including information about social insurance from the credit information database of the People's Bank of China, the credit database established upon approval by the competent credit investigation authorities, or relevant institutions, departments and individuals. The credit report acquired through inquiry may be used only within the scope prescribed by the interim measures for administration of credit information database issued by the People's Bank of China and other relevant laws and regulations. As agreed by Party B, Party A may provide Party B's credit information for the credit information database of the People's Bank of China and the credit database established upon approval by the competent credit investigation authorities.

7.3 Please confirm the options with √ in the brackets before the selected items.

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7.4 Any and all disputes arising from the execution of the Contract shall be settled by both Parties through consultation. Where consultation fails, the following (2) shall be adopted for dispute settlement:

(1) To apply \_\_\_\_\_ / \_\_\_\_\_ for arbitration in accordance with the current arbitration rules of the commission. The award of the arbitration shall be final and binding upon both Parties.

(2) To initiate a lawsuit in the people's court at the location where Party A is located;

(3) To initiate a lawsuit in the people's court of \_\_\_\_\_ / \_\_\_\_\_.

7.5 This Contract shall be governed by the laws of the People's Republic of China.

7.6 This Contract shall come into force upon the signature of all the parties hereto (if one party is a natural person, the Contract shall be signed by the party; if one party is a legal person or other organization, the Contract shall be signed or sealed by the authorized signatory and affixed with the official seal).

7.7 This Contract shall be made out in three originals for Party A holding two and Party B, ( ) the Debtor and ( ) the registration authority each holding one.

Unit Seal of Party A: *PINGAN BANK CO., LTD. SHENZHEN XINZHOU BRANCH:*

/s/ [COMPANY SEAL]

Signature of Legal Representative or Authorized Agent:

Seal of Party B (if an unit):

*SPRING POWER TECHNOLOGY (SHENZHEN) COMPANY LIMITED*

/s/ [COMPANY SEAL]

Signature of Legal Representative or Authorized Agent: /s/ Danguyu Pan

Signature of Party B (if an individual) In person  
or Authorized Agent:

Date:

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## Maximum Guarantee Contract

Contract No.: PYSXZEBZ 20131112 No. 001-1

Party A (Creditor): PINGAN BANK CO., LTD. SHENZHEN XINZHOU BRANCH

Address: Zhongcheng Tianyi Park, Xinzhou Road, Futian District

Tel.: 23480048

Fax: 23480054

Principal: Li Jing

Position: President

Party B (Guarantor): SPRINGPOWER TECHNOLOGY (SHENZHEN) COMPANY LIMITED

Certificate Type \*: \_\_\_\_\_ Certificate No. \*: \_\_\_\_\_

(The contents expressed with "\*" may not be written if Party B is an unit)

Address: Building A, Chaoshun Industrial Zone, Renmin Road, Guanlan

Tel.: \_\_\_\_\_

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

Legal Representative \*\*: Pan Dangyu

Position \*\*: \_\_\_\_\_

(The contents expressed with "\*" may not be written if Party B is an individual)

Whereas Party B is willing to act as the Guarantor of Party A and provide Party A with maximum joint liability guarantee in order to ensure the execution of the contract between Party A and SHENZHEN HIGHPOWER TECHNOLOGY CO., LTD. (hereinafter referred to as the Debtor), IN WITNESS WHEREOF, Party A and Party B hereby agree to conclude and sign this Contract upon consensus through consultation between both Parties. Both Parties shall abide by the following terms and conditions.

### Article 1 Guarantee and Guarantee Liability

#### 1.1 Scope of guarantee

The scope of guarantee hereunder is as follows (expressed with "√" in front of the option):

The principal, interest, compound interest and default interest of all the debts (including contingent debts), and the expenses for realizing the creditor's rights which shall be borne by the Debtor under the Comprehensive Credit Line Contract of PYSXZZ 20131112 No. 001 (hereinafter referred to as "the Main Contract"). The maximum principal (balance) of the debts shall be (converted into) RMB (currency) (in words) seventy million Yuan only.

(Converted into) \_\_\_\_\_ (currency) (in words) \_\_\_\_\_ of the principal of all the debts (including contingent debts) (converted into) \_\_\_\_\_ (currency) (in words) \_\_\_\_\_, and the corresponding interest, compound interest and default interest, and the expenses for realizing the creditor's rights which shall be borne by the Debtor under the \_\_\_\_\_ Contract of PY\_No. \_\_\_\_\_ (hereinafter referred to as "the Main Contract"). **Party A shall have the right to ask Party B to bear guarantee liability for the debt balance within the aforesaid scope of guarantee as long as the debts under the Main Contract are not fully repaid.**

Performance of the debts under all the credit line contracts and specific credit business contracts (hereinafter referred to as "the Main Contract") concluded and signed by and between the Debtor and Party A dated from \_\_\_\_\_ YYYY \_\_\_\_ MM \_\_\_\_ DD to \_\_\_\_\_ YYYY \_\_\_\_ MM DD. The date of signature of the Main Contract shall be within this period and the execution period of the Main Contract is not limited to this period. The scope of Party B's maximum guarantee shall include the principal, interest, compound interest and default interest of all the debts (including contingent debts), and the expenses for realizing the creditor's rights which shall be borne by the Debtor under the Main Contract. The maximum principal (balance) of the said debts shall be (converted into) \_\_\_\_\_ (currency) (in words) \_\_\_\_\_.

The principal of the debts not fully repaid by the Debtor (converted into) \_\_\_\_\_ (currency) (in words) \_\_\_\_\_, and the interest, compound interest and default interest thereof, and the expenses for realizing the creditor's rights under the \_\_\_\_\_ Contract of PY \_\_\_\_\_ No. \_\_\_\_\_ (hereinafter referred to as "the Main Contract").

---

( ) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Interest, default interest and compound interest shall be calculated according to the stipulations of the Main Contract until the debts are fully repaid. The expenses for realizing the creditor's rights shall include but not be limited to announcement cost, delivery fee, appraisal fee, attorney fee, legal cost, traveling expenses, evaluation fee, auction fee, property preservation cost and enforcement fee.**

The exchange rate of currencies other than RMB shall be converted according to the foreign exchange rate published by Party A when the specific business occurs.

1.2 Guarantee period of this Contract:

(√) The guarantee period hereunder shall be from the date of effectiveness of this Contract to two years after the expiration of the debt performance term specified in the Main Contract. The guarantee period of each specific credit business shall be calculated separately. In case of extension of any specific credit, the guarantee period shall be extended to two years after the expiration of the extended term.

( ) The guarantee period hereunder shall be from the date of release of the loan under the Main Contract to the date when \_\_\_\_\_ handles and completes the procedures for real estate mortgage registration taking Party A as the mortgagee and the relevant ownership certificates are submitted to Party A.

( ) The guarantee period hereunder shall be from the date of effectiveness of this Contract to \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

( ) \_\_\_\_\_  
\_\_\_\_\_

If Party A transfers its creditor's rights to a third person by law during the guarantee period, Party B hereby agrees to bear guarantee liability within the original scope of guarantee.

**1.3 If the Debtor transfers its credit line granted by Party A to a third party to use, Party B hereby agrees to bear guarantee liability for the transferred part according to the stipulations of this Contract.** The specific credit-transferred object and amount are as follows:

1. \_\_\_\_\_(the transferee), amount: (converted into) \_\_\_\_\_(currency) (in words) \_\_\_\_\_;
2. \_\_\_\_\_(the transferee), amount: (converted into) \_\_\_\_\_(currency) (in words) \_\_\_\_\_;
3. \_\_\_\_\_(the transferee), amount: (converted into) \_\_\_\_\_(currency) (in words) \_\_\_\_\_;
4. \_\_\_\_\_

**1.4 Party B shall bear guarantee liability hereunder independently. Party A shall have the priority to ask Party B to bear guarantee liability no matter whether there is any security or guarantee provided by the guarantor (including the debtor of the Main Contract). If Party A waives the guarantee right for the guaranteed property (including the guaranteed property provided by the Debtor) or for other guarantors, Party B shall also take full guarantee liability according to the stipulations of this Contract.**

1.5 This Contract is an irrevocable contract.

1.6 The validity of this Contract is independent from the Main Contract. In case of invalidity of the Main Contract or any clause of the Main Contract, this Contract shall remain in force.

\_\_\_\_\_

## Article 2 Performance of Guarantee Liability

2.1 If the Debtor fails to perform any matured debt (including matured in advance, same below) under the Main Contract, Party B ensures to repay the debt unconditionally after the receiving of a written payment notice from Party A. Any document about the Debtor's failure to perform any matured debt given by Party A shall be deemed as a written payment notice that Party A asks Party B to make payment.

2.2 **Party B hereby irrevocably authorizes Party A to deduct the principal and interest of the Debtor's matured debt and related expenses directly from any and all accounts opened by Party B in any banking branch of Pingan Bank. Party A shall notify Party B in writing after this deduction and shall have the right to continuously claim Party B for the insufficient part.** If the amount deducted is not enough to repay all the matured debts and the Debtor delays for less than 90 days (including 90 days), the repayment priority of principal and interest is as follows: (1) expenses; (2) interest (including default interest and compound interest); (3) principal. If the Debtor delays for more than 90 days, the repayment priority of the principal and interest of the advance payment is as follows: (1) expenses; (2) principal; (3) interest (including default interest and compound interest).

## Article 3 Guarantor's Warranties and Commitments

3.1 Party B has completed all the authorizations and approvals necessary for the signature of this Contract. This Contract is the presentation of Party B's true meaning and may not result in violation of any agreement or commitment concluded with any a third party. When this Contract is concluded and signed, Party B has not violate any law, regulation and rule for environmental protection, energy conservation and emission reduction, and pollution reduction, and Party B promises to strictly abide by such laws, regulations and rules after the conclusion of this Contract.

3.2 Party B is not involved in any litigation, arbitration, execution, appeal and reconsideration procedure and other incident or case which may have major adverse impact on the execution of this Contract, unless otherwise Party B notified Party A in wiring prior to the conclusion of this Contract.

3.3 The following provisions are applicable if Party B is a legal person:

3.3.1 Party B is a company with good reputation duly established and validly existing within the jurisdiction of the location where it is located. Party B has all corporate rights and has obtained the government license and approval for conducting its current business.

3.3.2 Party B shall, within the time limit requested by Party A, provide its financial statements, number of all opening accounts, loan balance and other relevant materials requested by Party A. Party B shall ensure the genuine, completeness and objectivity of all the documents and materials provided, which shall have no false record, misleading representation or material misstatement. The financial statements shall be prepared strictly in accordance with the Accounting Standards of China.

3.4 The following provisions are applicable if Party B is an individual:

3.4.1 Party B has provided his personal and family incomes and properties, and other relevant materials required by Party A, and Party B warrants the genuine, completeness and accuracy of the documents and materials that Party B has provided.

3.4.2 Party B warrants coordinating Party A to supervise and inspect the incomes and credit conditions of Party B. If Party A thinks the loan guarantee conditions worsened during the execution period of this Contract, Party B shall provide other guarantee measures accepted by Party A.

## Article 4 Guarantor's Rights and Obligations

4.1 Party B shall have the right to ask Party A to bear confidentiality obligation for the materials provided by Party B, except otherwise prescribed by laws and regulations, or specified by a regulatory authority or by both Parties, or non-confidential information provided by Party B.

4.2 **Party B has carefully read the Main Contract and confirmed all the clauses of the Main Contract. Party B may not confirm the single credit contract or IOU or other credit business voucher under the Main Contract which does not exceed the specification of the Main Contract.**

**Party A and the Debtor may not obtain Party B's consent for change of the Main Contract. Party B shall continuously bear joint guarantee liability for the Main Contract after change. However, if the principal of the debit is increased and the loan term is extended without Party B's written consent, Party B shall continuously bear guarantee liability according to the amount and term originally specified in the Main Contract.**

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4.3 Party B shall accept and ensure to coordinate Party A to supervise and inspection Party B's management situations and guarantee capacity. Party B shall allow Party A to enter Party B's business site for inspecting Party B's assets, financial status and management situations.

4.4 ( ) In case of transfer of major property rights, system change or transfer of claims and debts occurring to Party B, Party B shall notify Party A of the relevant issues in advance and obtain Party A's written consent prior to such change.

( ) If Party B has any one of the following circumstances, it shall notify Party A thirty days in advance. If Party A thinks it will cause significant impact on the performance of the Contract, Party B shall obtain Party A's written consent in advance:

(1) material change to Party B's operating system, equity structure, property organizational form and primary business, including but not limited to implementation of contracting, lease, joint operation, reform of shareholding system, merger, acquisition, joint venture (cooperation), division, establishment of a subsidiary, trusteeship (takeover), sales of enterprise, transfer of property rights and reduction of capital, etc.;

(2) disposal of important assets, of which the value exceeds 10% of the net assets, by selling, gifting, lending, transferring, mortgaging (pledging) or other means;

(3) its dividends exceed 30% of the net profits after tax of the current year or exceed 20% of the total undistributed profits;

(4) it adds external investment of over 20% of its net assets after the Contract becomes valid;

(5) it changes the debt clauses with other bank and pay off other long-term debt in advance;

(6) Party B repays its shareholder debt; or

(7) it applies other bank for a credit line, or provides a third party with security, or reduces or exempts a third party's debt, with the debt amount concerned exceeding 20% of its net assets.

**4.5 Party B shall notify Party A within seven working days as of the date of occurrence or possible occurrence of the following matters, and Party A shall have the right to decide whether to request Party B and the Debtor to add guaranty or directly take back all the loans as the case may be:**

(1) business or financial status is worsened;

(2) Party B is highly fined by a competent authority or is involved in major legal dispute;

(3) Party B, its shareholder, its legal representative or key manager is involved in an important case, or Party B's main asset goes under property preservation or other compulsory measures; or there is any other incident which causes Party B's legal representative or key manager impossible to perform his duties normally;

(4) Party B provides a third party with guarantee, causing significant adverse impact on its financial condition or on the performance of its obligations under this Contract;

(5) Party B goes into winding-up, ceasing of its operation for reorganization, dissolution, closedown or bankruptcy, or its business license is revoked;

(6) its economic conditions become bad, such as unemployment, unit bankruptcy, or major loss of personal property, major adverse change of personal physical health, divorce with spouse, and other matters which may affect Party B's capacity to perform this Contract; or

(7) any other important event or default event which may affect the business activities of Party B and the loan safety of Party A.

4.6 If Party B changes its domicile, mailing address, telephone number, business scope, legal representative (work unit) or other relevant items, it shall notify Party A in writing within seven working days after the change. In the event that Party B fails to perform the said notification obligation, the notices and documents given by Party A according to the original mailing address shall be deemed to have been served.

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( ) The financial indicators shall reach the following standard within the loan term:

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#### **Article 5 Breach of Contract**

5.1 **Any one of the following cases shall be deemed as a default event referred to herein:**

- (1) Party B fails to perform the compensative liability on time and in full;
- (2) Party B violates some of its warranties and commitments or has any other behavior not performing the obligations hereunder;
- (3) Party B transfers its property or draws out capital;
- (4) Party B has breach of contract under other contracts signed and concluded with Party A or any other banks; or
- (5) there is any major adverse change of Party B's business and financial status.

5.2 **In case of any one of these default events listed in the preceding clause, Party A shall have the right to take the following actions:**

- (1) To ask Party B to perform the compensative liability immediately;
- (2) To ask Party B to provide new guarantee measures accepted by Party A;
- (3) Party A claims Party B's debtor for the right of subrogation or appeal to the court to revoke Party B's waiving of the creditor's right due or Party B's transfer of property free of charge or at an obviously unreasonable low price. Party B shall provide all necessary coordination and assistance according to Party A's requirements, and all the costs and expenses caused to Party A arising therefrom shall be borne by Party B; or
- (3) Other remedial measures prescribed by laws and regulations.

#### **Article 6 Other Provisions**

( ) The *Bank Enterprise Guarantee Business Cooperation Agreement* (hereinafter referred to as the Agreement) concluded and signed by and between Party A and Party B is a fundamental legal document for standardizing the relation of rights and obligations between both Parties. In case of any discrepancy between this Contract and the Agreement, the Agreement shall prevail.

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#### **Chapter 7 Supplementary Provisions**

7.1 ( ) Both Parties agree to handle compulsory enforcement notarization for this Contract.

If Party B fails to completely or partly perform the obligations specified herein when compulsory enforcement notarization is handled by both Parties for this Contract, Party A shall have the right to apply the original notary public for an enforcement certificate, and apply the competent people's court (the people's court at the location where the person subject to enforcement lives or where the property of the person subject to enforcement is located) for enforcement holding the original notarial certificate and the enforcement certificate.

(√) No compulsory enforcement notarization shall be handled for this Contract.

7.2 Party B authorizes Party A to inquire Party B's credit standing including information about social insurance from the credit information database of the People's Bank of China, the credit database established upon approval by the competent credit investigation authorities, or relevant institutions, departments and individuals. The credit report acquired through inquiry may be used only within the scope prescribed by the interim measures for administration of credit information database issued by the People's Bank of China and other relevant laws and regulations. As agreed by Party B, Party A may provide Party B's credit information for the credit information database of the People's Bank of China and the credit database established upon approval by the competent credit investigation authorities.

7.3 Please confirm the options with √ in the brackets before the selected items.

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7.4 Any and all disputes arising from the execution of the Contract shall be settled by both Parties through consultation. Where consultation fails, the following (2) shall be adopted for dispute settlement:

(1) To apply \_\_\_\_\_/\_\_\_\_\_ for arbitration in accordance with the current arbitration rules of the commission. The award of the arbitration shall be final and binding upon both Parties.

(2) To initiate a lawsuit in the people's court at the location where Party A is located;

(3) To initiate a lawsuit in the people's court of \_\_\_\_\_/\_\_\_\_\_.

7.5 This Contract shall be governed by the laws of the People's Republic of China.

7.6 This Contract shall come into force upon the signature of all the parties hereto (if one party is a natural person, the Contract shall be signed by the party; if one party is a legal person or other organization, the Contract shall be signed or sealed by the authorized signatory and affixed with the official seal).

7.7 This Contract shall be made out in three originals for Party A holding two and Party B, ( ) the Debtor and ( ) the registration authority each holding one.

Unit Seal of Party A: *PINGAN BANK CO., LTD. SHENZHEN XINZHOU BRANCH*  
/s/ [COMPANY SEAL]

Signature of Legal Representative or Authorized Agent:

Seal of Party B (if an unit):

*SPRING POWER TECHNOLOGY (SHENZHEN) COMPANY LIMITED*  
/s/ [COMPANY SEAL]

Signature of Legal Representative or Authorized Agent: /s/ Danguyu Pan

Signature of Party B (if an individual) In person  
or Authorized Agent:

Date:

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THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
HONG KONG BRANCH  
(INCORPORATED IN TAIWAN WITH LIMITED LIABILITY)

Private and Confidential

Our Reference: 6400102110148

17th September 2013

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

For and on behalf of \_\_\_\_\_  
HONG KONG HIGHPOWER TECHNOLOGY COMPANY LIMITED

/s/ Dangyu Pan

\_\_\_\_\_  
*Authorized Signature(s)*

Dear Sirs,

**Re: Banking Facility up to a limit of USD3,500,000**  
**Borrower: Hong Kong Highpower Technology Company Limited**

In replacement of the banking/credit facility as per our Facility Letter dated 16th July 2013 (Our Ref: 6400102110121), we are pleased to offer the banking/credit facility(ies) as described in this letter ("**Facility Letter**") to you subject to the provisions herein contained this Facility Letter and in Appendix ("**Appendix**") hereof. Please note that the Appendix forms an integral part of this Facility Letter, which is intended to set out all the terms and provisions of the said Facility.

1. **Bank**

The Shanghai Commercial & Savings Bank, Ltd., Hong Kong Branch, whose registered office is situated at 10/F, Peninsula Office Tower, 18 Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong (including its successors and assigns) (the "**Bank**").

2. **Borrower**

Hong Kong Highpower Technology Company Limited (Company No.: 851928) whose registered office is situated at Unit 12, 15/F Technology Park, 18 On Lai Street, Shek Mun Street, Shek Mun, Shatin, N.T. (the "**Borrower**").

3. **Facility Type and Amount**

A Non-revolving Short-term Secured Loan Facility

Limit: US Dollars Three Million and Five Hundred Thousand (USD3,500,000)

Note:-

- i. **The Non-Revolving Medium-term Secured Loan Facility is to be granted against the Standby Letter of Credit issued by Bank of China or any other banks with terms and conditions therein acceptable to the Bank.**

- ii. **If Standby Letter of Credit in RMB is furnished to secure the Facility, the loan(s) can only be drawn up to an equivalent of 95% of the amount of the Standby Letter of Credit. The Bank is to review the exchange rate of RMB/USD on a monthly basis. If the loan-to-value ratio at any time exceeded the 95% threshold, the Borrower is to furnish to the Bank additional Fixed Deposit or to partially repay the outstanding liabilities so as to maintain the loan-to-value ratio at 95% or below within one week. If the loan-to-value ratio at any time exceeded 97% of the amount of the Standby Letter of Credit, the Bank is to, subject to its own discretion, convert the outstanding USD loan into a RMB loan with an equivalent amount, or present its claim immediately to the issuing bank of the relevant Standby Letter of Credit for payment.**
- iii. **[CHINESE CHARACTERS] must be provided within one month after loan drawdown.**

Unless otherwise agreed by the Bank, the Borrower shall ensure that the total outstanding amount of the Facility shall not exceed the Facility Limit.

The Facility Limit is subject to our customary periodic review, normally on an annual basis. In any event, the Bank may at any time modify or reduce the Facility Limit.

4. **Interest**

Interest is to be charged at **2% p.a. above 6-Month LIBOR** or **1.3% p.a. above 6-Month TAIFX**, whichever is higher, but in any event not to be less than our cost of funds.

Interest is payable quarterly commencing three months after the drawdown date or at the due date, whichever is earlier.

“TAIFX” means the annual rate of interest applicable for each interest period in respect of an advance as published by Taipei Forex Inc. and determined in the absence of manifest error, by the Bank to be the rate (rounded up, if necessary, to the nearest integral multiple of 1/16 per cent) at which the United States Dollar deposits in amount comparable to the amount of the advance are offered by the Bank for that interest period to other banks in the Taiwan inter-bank market on the first day of that interest period.

The LIBOR and TAIFX are subject to change. The interest rate of the Facility shall be changed automatically and immediately upon the change of the LIBOR and/or TAIFX without any notice from the Bank to the Borrower.

5. **Drawdown**

The Borrower shall give notice to the Bank no later than 2 business days before the day it requires drawdown. The notice of drawdown referred herein shall be in such form and content to be determined by the Bank in its absolute discretion.

6. **Repayment**

Subject to the Bank’s overriding right of withdrawal and forthwith repayment on demand, all the outstanding liabilities under the Facility shall be repaid in the 12th month from the drawdown date.

7. **Conditions Precedent**

The availability of the Facility is subject to and conditional upon due and complete fulfillment of all of the following conditions :

- (a) delivery of certified true copies of the Certificate of Incorporation and Memorandum and Articles of Association (or equivalent constitutional documents) of the Borrower(s);
- (b) delivery of appropriate supporting board minutes and/or shareholders' resolutions in a form acceptable to the Bank;
- (c) the Bank's standard Guarantee and Indemnity duly executed by the Guarantor(s);
- (d) the General Letter of Hypothecation; and
- (e) such other documents, items or evidence (all in a form acceptable to the Bank) as the Bank may require.

8. **Nature and Term of the Facility**

The final maturity date of the Facility is 12 months from the drawdown date.

We must stress that notwithstanding anything contained in this Facility Letter, the Bank shall be entitled at any time in its absolute discretion to cancel or withdraw the Facility and/or to demand immediate repayment or payment (as the case may be) of all principal, interest, fees and other amounts outstanding under this Facility Letter (the "**Facility Liabilities**") (whereupon the Facility shall be so cancelled or withdrawn and/or the Facility Liabilities shall be immediately so payable).

The Facility is also subject to our customary periodic review, normally on an annual basis. In any event, the Bank may at any time cancel the outstanding commitment in respect of any undrawn portion of the Facility.

It should be noted that approval of advance to the Borrower under any of the Facility may in our sole and absolute discretion, be varied, withdrawn or suspended at any time before any such advance is in fact made notwithstanding any purported acceptance by the Borrower hereunder or the signing/execution of any Facility Letter and security documents by the Borrower in favour of us.

9. **Security Documents**

**Guarantee**

A joint and several guarantee (the "**Guarantee**") is to be furnished by Pan Dangu [CHINESE CHARACTERS] (PRC Passport No.: G25154215) whose address is at [CHINESE CHARACTERS] (the "**Guarantor**") respectively in favour of the Bank whereby the Guarantors shall guarantee the payment to the Bank of all moneys due or owing by the Borrower to the Bank under this Facility Letter. The Guarantee shall be in such form and content to be determined by the Bank in its absolute discretion.

Please indicate your acceptance of the Facility by signing and returning the enclosed duplicate of this Facility Letter, which should be duly signed by you and the relevant party(ies) (if any) within 30 days hereof to evidence your understanding, failing which the offer in this Facility Letter will lapse (unless otherwise agreed by our Bank).

Yours faithfully,

For and on behalf of

The Shanghai Commercial & Savings Bank, Ltd., Hong Kong Branch

/s/[ILLEGIBLE SIGNATURE]

/s/[ILLEGIBLE SIGNATURE]

Authorized Signature(s)

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
HONG KONG BRANCH  
(INCORPORATED IN TAIWAN WITH LIMITED LIABILITY)

We agree to accept the Facility and be bound by all the terms and conditions as the Borrower.

In addition, we hereby represent, declare and undertake to the Bank that the utilization of any of the Facility or use of proceeds drawn under this Facility Letter do not and will not conflict with any law or regulation applicable to us (including and without limitation those in force in the Mainland). The above representation and declaration to be made by us by reference to the facts then existing during the period where the Facility thereof remains outstanding.

For and on behalf of Hong Kong Highpower Technology Company Limited

/s/ Dangyu Pan

Authorized Signature(s)

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Borrower: Hong Kong Highpower Technology Company Limited

Date:

**[CHINESE CHARACTERS]**

I understand and agree to the terms and conditions of this Facility Letter. I confirm that, notwithstanding the amendment of the existing facility(s) to the Borrower(s) pursuant to this Facility Letter, my existing guarantee and/or security of the Borrower's obligations in favour of the Bank shall remain in full force and effect.

/s/ Dangyu Pan

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Guarantor: Pan Dangyu **[CHINESE CHARACTERS]**

PRC Passport No.: G25154215

Date:

Note: The Borrower should note that the Bank has during the credit approval process obtained and considered a credit report on the Borrower from the credit reference agency - Dun & Bradstreet (HK) Limited. In this regard, the Borrower may wish to contact the credit reference agency (Tel No. 2516 1100) directly for enquiry. The Bank may in future access the Borrower's data held with the credit reference agency for the purpose of reviewing the facility and such reviews are common and in the normal course of events take place one or more times each year.

## APPENDIX

### Definitions and Interpretation

“**HIBOR**” means the annual rate of interest applicable for each interest period in respect of an advance determined conclusively, in the absence of manifest error, by the Bank to be the rate (rounded up, if necessary, to the nearest integral multiple 1/16 per cent.) at which Hong Kong dollar deposits in amounts comparable to the amount of the advance are offered by the Bank for that interest period to prime banks in the Hong Kong inter-bank market at or about 11:00 a.m. (Hong Kong time) on the first day of that interest period;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“**LIBOR**” means the annual rate of interest applicable for each interest period in respect of an advance determined conclusively, in the absence of manifest error, by the Bank to be the rate (rounded up, if necessary, to the nearest integral multiple 1/16 per cent.) at which United States dollar deposits in amounts comparable to the amount of the advance are offered by the Bank for that interest period to prime banks in the London inter-bank market at or about 11:00 a.m. (London time) on the first day of that interest period;

“**Prime Rate**” means Hong Kong dollar prime lending rate as announced, quoted or applied by the Bank from time to time and subject to fluctuation at its discretion;

### General Terms and Conditions

1. **Interest Rate Calculation Basis**

1.1 Interest shall be computed on the basis of a 365 day year for Hong Kong dollar Facilities and 360 day year for Facilities in other currencies.

2. **Overdue Interest**

2.1 4% per annum over the interest rate as set out in paragraph 4 of the Facility Letter subject to changes at our discretion.

3. **Interest and Repayment on Overdraft facility (“O/D”)**

3.1 O/D is repayable on demand. Interest is to be accrued on a daily basis but payable monthly in arrears to the debit of the Borrower’s Current Account on the 21st day (or the next business day if it is a holiday) of each and every calendar month. Any O/D in excess of the agreed limit is subject to approval at our discretion. Interest on such excess amount is to be charged at such rate as the Bank may from time to time determine on a daily basis which is currently at Prime Rate plus 10% per annum.

4. **Set-off**

4.1 In the event of default, the Bank have the right to set off any credit balance in other accounts held by the Borrower solely or jointly with other person(s) against the actual or contingent liabilities due to the Bank whether current or otherwise or subject to notice or not.

5. **Expenses**

5.1 Whether or not the legal documentation for the Facilities is executed as contemplated, all expenses, commissions, legal costs, fees, stamp duties, insurance premiums, property valuation fees, documentation costs, out-of-pocket expenses and any other expenses reasonably incurred in connection with the Facilities including, without limitation, the preparation, execution and/or enforcement of the relative security documents shall be for the Borrower's account and borne by the Borrower and shall be payable on demand.

6. **Forced Liquidation**

6.1 If the total outstanding amount under the Facility shall exceed [80]% of the market value of the Collateral, the Borrower shall, on demand by the Bank, make partial prepayment of the Facility in the sum equal to the amount of the total outstanding amount under the Facility exceeding [80]% of the market value of the Collateral to the extent that the remaining total outstanding amount under the Facility (after the aforesaid partial prepayment) shall not exceed [80]% of the market value of the Collateral. The market value of the Collateral shall be determined by the Bank in its absolute discretion and the determination of the Bank on the market value of the Property shall be final and conclusive and be binding on the Borrower.

7. **Debt Collection Agencies**

7.1 When necessary and at the Bank's discretion, debt collection agencies may be appointed to recover any overdue amount due to the Bank by the Borrower. The Borrower are required to indemnify the Bank for the reasonable costs and expenses incurred in the debt recovery process.

8. **Availability Period of The Facility**

8.1 The Facility will be available for 3 months from the date of this Facility Letter unless further extension is agreed by the Bank in writing. After the expiration of the said 3 months period, the Facility shall automatically become lapsed and be terminated.

9. **Increased Costs**

9.1 If any change in, or in the interpretation of or compliance with, any law or regulation subjects the Bank to tax in respect of sums payable by the Borrower hereunder (other than tax on the Bank's overall net income), or increases the Bank's cost of making available or maintaining the Facility or reduces the amount of any payment receivable by the Bank hereunder, then the Borrower will pay the Bank on demand all amounts needed to compensate the Bank therefor.

10. **Representations and Warranties**

10.1 The Borrower represents and warrants to the Bank that:

- (a) the Borrower has full capacity and legal right to enter into and engage in the transactions contemplated by this Facility Letter and this Facility Letter constitutes legal, valid and binding obligations of the Borrower in accordance with its terms;

- (b) neither the borrowing of the Facility nor the performance by the Borrower of its obligations hereunder will conflict with any obligation applicable to the Borrower or result in or oblige the Borrower to create any encumbrance on any of its property; and
- (c) there are no pending or, to the best of the knowledge and belief of the Borrower, threatened actions or proceedings before any court, arbitrator, administrative tribunal or governmental authority which might materially and adversely affect the business, assets or condition (financial or otherwise) or operations of the Borrower or its ability to perform its obligations hereunder.

11. **Events of Default**

- 11.1 The Bank may by written notice to the Borrower declare the amount of the Facility outstanding, accrued interest thereon and all other sums payable hereunder to be, whereupon the same shall become, immediately due and payable if any of the following events of default occurs :
- (a) the Borrower fails to pay any sum payable hereunder on the due date;
  - (b) the Borrower fails to perform any other of its obligations hereunder and, in respect only of a failure which is in the Bank's opinion capable of remedy, does not remedy such failure within seven (7) days after receipt of written notice from the Bank requiring it to do so;
  - (c) any representation or warranty made by the Borrower in this Facility Letter is or proves to have been untrue or inaccurate in any material respect;
  - (d) the Borrower (being individual) dies or commits an act of bankruptcy;
  - (e) if any Shareholder (being a company) commits an act to go into voluntary liquidation or reconstruction or amalgamation; and
  - (f) any situation occurs which in the opinion of the Bank may materially and adversely affect the ability of the Borrower to perform its obligations under this Facility Letter.

12. **Indemnity**

- 12.1 The Borrower shall indemnify the Bank against all losses, liabilities, damages and expenses which the Bank may sustain or incur as a consequence of any event of default hereunder or any default by the Borrower in the performance of its obligations hereunder.
- 12.2 The Bank is entitled to employ, engage and appoint lawyers, debt collection agents or third party service providers to demand, request, recover and collect any money from time to time due and outstanding from the Borrower to the Bank under this Facility Letter and/or incurred as a consequence of any default by the Borrower in the performance of its obligations hereunder. The Borrower hereby agrees to pay and indemnify the Bank on full indemnity basis all the costs, expenses, charges, fees, commissions and service charges incurred by or charged against the Bank in relation to the employment, engagement and appointment of such lawyers, debt collection agents or third party service providers. The Borrower's attention is specifically drawn to the provisions of this Clause which may involve the Borrower in incurring additional costs and expenses.

13. **Payments**

- 13.1 The Borrower shall make all payments under this Facility Letter in immediately available funds by [\*] a.m. (Hong Kong time) on the due day by such method as the Bank and the Borrower may agree.

14. **Assignment**

14.1 The Bank is entitled to assign or transfer all or any of its rights or transfer any of its obligations hereunder without the consent of the Borrower. The Borrower shall not assign any of its rights or transfer any of its obligations hereunder.

15. **Notices**

15.1 Any notice or demand given or made in connection with this Facility Letter shall be sent to the Bank or the Borrower, as the case may be, at its address given above or such other address as the relevant party may from time to time notify to the other. Notices shall be in writing and made by letter, telex or facsimile.

16. **Policy on Personal Data**

16.1 The policies and practices of the Bank in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486, Laws of Hong Kong) are set out in the Circular to Customers and Other Individuals relating to the Personal Data (Privacy) Ordinance attached to this Facility Letter. The said policies and practices form an integral part of this Facility Letter and shall be deemed incorporated into this Facility Letter accordingly.

17. **Miscellaneous Provisions**

17.1 Where there is any conflict between the provisions in this Facility Letter and the other terms and conditions previously delivered to the Borrower by the Bank, the provisions herein shall prevail.

17.2 Section 83 of the Banking Ordinance (Chapter 155, Laws of Hong Kong, the "Ordinance") has imposed on the Bank as a bank certain limitations on advances to persons or companies related to the Bank's directors or employees. In acknowledging this Facility Letter the Borrower should advise the Bank whether the Borrower is in any way related to any of the Bank's directors or employees within the meaning of the Ordinance and in the absence of such advice the Bank will assume that the Borrower is not so related. The Borrower shall advise the Bank immediately in writing should it becomes so related subsequent to acknowledging this Facility Letter.

17.3 Upon signing the duplicate of this Facility Letter, the Borrower consents to the Bank on providing to any guarantor or security provider in respect of any Facility or credit facilities extended to Borrower:

- (a) a copy of this Facility Letter evidencing the obligations to be guaranteed or secured or a summary thereof;
- (b) a copy of any formal demand for overdue payment which is sent to the Borrower after it has failed to settle an overdue amount following a customary reminder; and from time to time on request by the guarantor or security provider, a copy of the latest statement of account provided to the Borrower.

17.4 If it becomes unlawful for the Bank to give effect to its obligations hereunder, it shall notify the Borrower in writing and the Borrower shall, within such period as may be permitted by the relevant law, repay the principal together with all interest accrued thereon to the date of repayment and other monies then payable hereunder.

17.5 If any provision herein becomes illegal, invalid or unenforceable then the remaining provisions of this Facility Letter shall not be affected or impaired thereby.

17.6 No failure or delay by the Bank in exercising any right, power or remedy hereunder shall operate as a waiver thereof. Rights, powers and remedies available under this Facility Letter do not exclude those provided by law.

18. **Language**

18.1 The Chinese version of the Facility Letter (including this Appendix) is for reference only and if there is any conflict between the English and Chinese versions, the English version shall prevail.

19. **Governing Law and Jurisdiction**

19.1 This Facility Letter and the Facility shall be governed by and construed in accordance with the laws of Hong Kong.

19.2 The parties hereto irrevocably submit to the non-exclusive jurisdiction of the courts of Hong Kong.



INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of Highpower International, Inc. and subsidiaries (the "Company") on Form S-8 (File No.333-157443) and the Registration Statement on Form S-3 (File No. 333-192168) of our report dated March 31, 2014, with respect to our audits of the consolidated financial statements of the Company as of December 31, 2013 and 2012, and for the years ended December 31, 2013 and 2012, which report is included in this Annual Report on Form 10-K of the Company for the years ended December 31, 2013 and 2012.

/s/ Marcum Bernstein & Pinchuk LLP  
New York, New York  
March 31, 2014



**NEW YORK OFFICE • 7 Penn Plaza • Suite 830 • New York, New York 10001 • Phone 646.442.4845 • Fax 646.349.5200 •**  
**[marcumbp.com](http://marcumbp.com)**

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

I, Dang Yu Pan, certify that:

1. I have reviewed this annual report on Form 10-K of 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: March 28, 2014

/s/ Dang Yu Pan

By: Dang Yu Pan

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 annual report on Form 10-K 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: March 28, 2014

/s/ Henry Sun

Henry Sun

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

In connection with the annual report of Highpower International, Inc. (the "Company") on Form 10-K for the year ending December 31, 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)  
March 28, 2014

/s/ Henry Sun

Henry Sun  
Chief Financial Officer  
(Principal Financial and Accounting Officer)  
March 28, 2014

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