

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K/A**  
(Amendment No. 2)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NO. 000-52103

**HONG KONG HIGHPOWER TECHNOLOGY, INC.**

(Exact Name Of Registrant As Specified In Its Charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**20-4062622**

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

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

(Address of principal executive offices)

**N/A**

(Zip Code)

Registrant's telephone number, including area code: **(86) 755-89686238**  
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:  
None.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:  
Common Stock, \$.0001 par value

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

There were 20,478,090 shares outstanding of registrant's common stock, par value \$.0001 per share, as of April 11, 2008. The registrant's common stock is not traded or listed on any exchange.

Documents Incorporated by Reference: None.

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## EXPLANATORY NOTE

Hong Kong Highpower Technology, Inc. (the “Company”) is filing this Amendment No. 2 on Form 10-K/A (“Amendment No. 2”) to amend its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, originally filed with the Securities and Exchange Commission (the “SEC”) on April 11, 2008 (the “Original Filing”), and as amended by Amendment No. 1 on Form 10-K/A filed with the SEC on June 16, 2008 (“Amendment No. 1, and collectively with the Original Filing, the “Original Filing as Amended”) is being filed to amend Items 6, 7 and 8 Part II to reflect amendments and changes to financial and other disclosures contained in the Original Filing as Amended.

The Company has restated its financial statements for the years ended December 31, 2007 and 2006 due to the reclassification of certain expenses in the Company’s statements of operations for the years ended December 31, 2007 and 2006. The Company reclassified the line item entitled “fees and costs related to reorganization” from other income (expense) to an operating cost line item in the statement of operations for the years ended December 31, 2007 and 2006. The Company also reclassified accounting costs originally classified in fees and costs related to reorganization in 2007 to general and administrative expenses to more properly reflect their purpose. The Company also reclassified loss on exchange rate difference to a separate operating cost line item in the statement of operations, which had previously been included in general and administrative costs. These reclassifications had no effect on net income for the years ended December 31, 2007 or 2006. The Company also made minor corrections to certain line item amounts in cash flows from financing activities for the year ended December 31, 2007, which did not have an effect on net cash provided by financing activities in 2007. As a result of the foregoing revisions, the Company labeled the statements of operations for the years ended December 31, 2007 and 2006 as “restated.”

This Amendment No. 2 amends only the items of the Original Filing as specified above and amends those items solely to reflect the changes described above, and all other portions of the Company’s Original Filing remain in effect and have not been amended to reflect events and developments since the original April 11, 2008 filing date. In accordance with Rule 12b-15 of the Exchange Act, this Amendment No. 2 on Form 10-K/A sets forth the complete text of Items 6, 7 and 8 of Part II of the Registrant’s Form 10-K for the year ended December 31, 2007, as amended, and also includes new Rule 13a-14(a)/15d-14(a) and Rule 13a-14(b)/15d-14(b) certifications as Exhibits 31.1, 31.2, and 32.1.

**PART II**

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated statement of operations data for the years ended December 31, 2007, 2006, 2005, 2004 and 2003 and the balance sheet data as of December 31, 2007, 2006, 2005, 2004 and 2003 are derived from the Company's audited consolidated financial statements, except for data as of and for the year ended December 31, 2003. The following data is qualified in its entirety by and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this Form 10-K/A.

<u>Consolidated Statements of Operations</u>	<u>Year Ended December 31,</u>				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(restated)	(restated)			(unaudited)
	<i>(in thousands)</i>				
Net sales	\$ 73,262	\$ 44,376	\$ 25,010	\$ 10,956	\$ 3,599
Cost of sales	<u>(63,791)</u>	<u>(36,959)</u>	<u>(20,757)</u>	<u>(9,306)</u>	<u>(3,290)</u>
Gross profit	9,471	7,417	4,253	1,651	309
Depreciation	(121)	(80)	(46)	(25)	(10)
Selling and distribution costs	(2,096)	(1,634)	(857)	(641)	(61)
General and administrative costs	(3,461)	(1,960)	(854)	(549)	(181)
Loss on exchange rate difference	(855)	(199)	-	-	-
Fees and costs related to reorganization	<u>(582)</u>	<u>(75)</u>	-	-	-
Income from operations	2,357	3,468	2,496	435	57
Other income	149	59	58	33	-
Interest expense	<u>(696)</u>	<u>(254)</u>	<u>(55)</u>	<u>(10)</u>	<u>-</u>
Income before taxes	1,809	3,273	2,499	458	57
Income taxes	<u>(145)</u>	<u>(241)</u>	<u>(188)</u>	<u>17</u>	<u>-</u>
Net income	<u>\$ 1,664</u>	<u>\$ 3,032</u>	<u>\$ 2,311</u>	<u>\$ 475</u>	<u>\$ 57</u>
Net income per common share – basic and diluted	<u>\$ 0.11</u>	<u>\$ 0.20</u>	<u>\$ 0.16</u>	<u>\$ 0.03</u>	<u>\$ 0.00</u>
Weighted average common shares outstanding – basic and diluted	15,731,988	14,798,328	14,798,328	14,798,328	14,798,328
Dividends declared per common share	\$ 0.045	-	-	-	-
	<b>Consolidated Balance Sheets</b>				
	<u>As of December 31,</u>				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
					(unaudited)
	<i>(in thousands)</i>				
Current Assets	\$ 40,167	\$ 28,573	\$ 12,851	\$ 6,322	\$ 1,910
Total Assets	48,920	31,736	14,585	7,378	2,317
Current Liabilities	37,366	24,571	10,728	5,907	2,056
Total Liabilities	37,366	24,571	10,728	5,907	2,140

Total Stockholders' Equity	11,554	7,165	3,857	1,472	177
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## Recapitalization

The acquisition of HKHT by us pursuant to the Share Exchange Transaction was accounted for as a recapitalization by us. The recapitalization was, at the time of the Share Exchange, the merger of a private operating company (HKHT) into a non-operating public shell corporation (us) with nominal net assets and as such is treated as a capital recapitalization, rather than a business combination. As a result, the assets of the operating company are recorded at historical cost. The transaction is the equivalent to the issuance of stock by the private company for the net monetary assets of the shell corporation. The pre acquisition financial statements of HKHT are treated as the historical financial statements of the consolidated companies. The financial statements presented will reflect the change in capitalization for all periods presented, therefore the capital structure of the consolidated enterprise, being the capital structure of the legal parent, is different from that appearing in the financial statements of HKHT in earlier periods due to this recapitalization.

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

### Forward-Looking Statements

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

### Overview

We were incorporated in the state of Delaware on January 3, 2006. We were originally organized as a "blank check" shell company to investigate and acquire a target company or business seeking the perceived advantages of being a publicly held corporation. On November 2, 2007, we closed a share exchange transaction described below, pursuant to which we (i) became the 100% parent of Hong Kong Highpower Technology Company Limited, a Hong Kong Company ("HKHT"), and its wholly-owned subsidiary, Shenzhen Highpower Technology Co., Ltd. ("Shenzhen Highpower"), a company formed under the laws of the People's Republic of China ("PRC" or "China"), (ii) assumed the operations of HKHT and its subsidiary and (iii) changed our name from SRKP 11, Inc. to Hong Kong Highpower Technology, Inc. HKHT was incorporated in Hong Kong in 2003, under the Companies Ordinance of Hong Kong.

In addition, on November 2, 2007, concurrently with the close of the Share Exchange, we conducted a private placement transaction (the "Private Placement"). Pursuant to Subscription Agreements entered into with the investors, we sold an aggregate of 2,836,364 shares of Common stock at \$1.10 per share. As a result, we received gross proceeds in the amount of \$3.1 million.

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

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

## **Recent Events**

### ***Share Exchange***

On October 20, 2007, we entered into a share exchange agreement (“Exchange Agreement”) with all of the shareholders of HKHT, pursuant to which we agreed to issue an aggregate of 14,798,328 shares of our common stock in exchange for all of the issued and outstanding securities of HKHT (the “Share Exchange”). Upon the closing of the Share Exchange on November 2, 2007, we issued an aggregate of 14,798,328 shares of our common stock to the shareholders of HKHT and/or their designees in exchange for all of the issued and outstanding securities of HKHT. In addition, immediately prior to the closing of the Share Exchange and the Private Placement, as described below, we and certain of our shareholders agreed to cancel an aggregate of 2,556,602 shares of common stock such that there were 2,843,398 shares of common stock outstanding immediately prior to the Share Exchange and Private Placement. We issued no fractional shares in connection with the Share Exchange. The Share Exchange closed on November 2, 2007. Upon the closing of the Share Exchange, we (i) became the 100% parent of HKHT, and HKHT’s wholly-owned subsidiary Shenzhen Highpower, (ii) assumed the operations of HKHT and its subsidiary and (iii) changed our name from SRKP 11, Inc. to Hong Kong Highpower Technology, Inc.

Immediately after the closing of the Share Exchange and Private Placement, we had 20,478,090 outstanding shares of common stock. Upon the closing of the Share Exchange, the shareholders of HKHT and their designees owned approximately 72.3% of our issued and outstanding common stock, the pre-existing stockholders of the Company owned 13.9% and investors in the Private Placement that closed concurrently with the Share Exchange, as described below, owned 13.8% of our outstanding common stock.

Pursuant to the terms of the Share Exchange, we agreed to register a total of 2,843,398 shares of common stock held by our stockholders immediately prior to the Share Exchange. Of these 2,843,398 shares, 1,307,963 shares are covered by a resale registration statement filed in connection with the Private Placement (described below), originally filed with the Securities and Exchange Commission on November 13, 2007, and 1,535,435 shares, which are held by affiliates of WestPark Capital, Inc. (“WestPark”), are to be included in a subsequent registration statement filed by us within ten days after the end of the six-month period that immediately follows the date on which we file the registration statement to register the shares issued in the Private Placement. WestPark acted as the placement agent in the Private Placement.

With respect to the registration statement that we will file to cover the 1,535,435 shares of common stock held by the WestPark affiliates, we agreed to use our reasonable best efforts to cause the registration statement to become effective within 150 days after the required filing date or the actual filing date, whichever is earlier, or 180 days after the required filing date or the actual filing date, whichever is earlier, if the registration statement is subject to a full review by the SEC. In addition, we agreed to use our reasonable best efforts to maintain the registration statement effective for a period of 24 months at our expense. We also agreed to a penalty provision pursuant to which we will issue additional shares of our common stock to the WestPark affiliates if we fail to timely file and maintain the registration statement.

Immediately after the closing of the Share Exchange, we changed our corporate name from “SRKP 11, Inc.” to “Hong Kong Highpower Technology, Inc.” The shares of our common stock are not currently listed or quoted for trading on any national securities exchange or national quotation system. We have applied for the listing of our common stock on the American Stock Exchange.

### ***Private Placement***

On November 2, 2007, concurrently with the close of the Share Exchange, we received gross proceeds of \$3.1 million in a private placement transaction (the “Private Placement”). Pursuant to subscription agreements entered into with the investors, we sold an aggregate of 2,836,364 shares of common stock at \$1.10 per share. The investors in the Private Placement also entered into a lock up agreement pursuant to which they agreed not to sell their shares until ninety (90) days after our common stock begins to be listed or quoted on either the New York Stock Exchange, American Stock Exchange, NASDAQ Global Market, NASDAQ Capital Market or the OTC Bulletin Board, when one-tenth of their shares are released from the lock up, after which their shares will automatically be released from the lock up on a monthly basis pro rata over a nine month period. After commissions and expenses related to the Private Placement, we received net proceeds of approximately \$2,738,000 in the Private Placement.

We agreed to file a registration statement covering the common stock sold in the Private Placement within thirty days of the closing of the Share Exchange pursuant to the subscription agreement with each investor. We filed the registration statement within that timeframe. We are required to use our reasonable best efforts to cause the registration statement to become effective within one hundred and 150 days after the closing or 180 days after the closing if the registration statement is subject to a full review by the SEC. We are also required to use our reasonable best efforts to maintain the registration statement effective for a period of 24 months at our expense.

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

### **Critical Accounting Policies and Estimates**

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

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

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

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

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

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

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



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

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

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

## Results of Operations

The following table sets forth the consolidated statements of operations of the Company for the years ended December 31, 2007, 2006 and 2005 (U.S. dollars):

	Year Ended December 31,		
	2007	2006	2005
	(restated)	(restated)	
	<i>(in thousands)</i>		
Net sales	\$ 73,262	\$ 44,376	\$ 25,010
Cost of sales	<u>(63,791)</u>	<u>(36,959)</u>	<u>(20,757)</u>
Gross profit	9,471	7,417	4,253
Depreciation	(121)	(80)	(46)
Selling and distribution costs	(2,096)	(1,634)	(857)
General and administrative costs	(3,461)	(1,960)	(854)
Loss on exchange rate difference	(855)	(199)	-
Fees and costs related to reorganization	<u>(582)</u>	<u>(75)</u>	<u>-</u>
Income from operations	2,357	3,468	2,496
Other income	149	59	58
Interest expense	<u>(696)</u>	<u>(254)</u>	<u>(55)</u>
Income before taxes	1,809	3,273	2,499
Income taxes	<u>(145)</u>	<u>(241)</u>	<u>(188)</u>
Net income	<u>\$ 1,664</u>	<u>\$ 3,032</u>	<u>\$ 2,311</u>
Net income per common share – basic and diluted	<u>\$ 0.11</u>	<u>\$ 0.20</u>	<u>\$ 0.16</u>
Weighted average common shares outstanding – basic and diluted	15,731,988	14,798,328	14,798,328

## EBITDA

In evaluating our business, we consider and use EBITDA, a financial measure not in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), as a supplemental measure of our operating performance. We define EBITDA as net income (loss) before net interest expense, provision (benefit) for income taxes, and depreciation and amortization. We use EBITDA as a supplemental measure to review and assess our operating performance and to enhance comparability between periods. We also believe the use of EBITDA facilitates the use by investors of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in such items as the book amortization of intangible assets (affecting relative amortization expense), the age and book value of facilities and equipment (affecting relative depreciation expense), and capital structure (affecting relative interest expense). We also present EBITDA because we believe it is frequently used by securities analysts, investors and other interested parties as an alternate measure of financial performance. We reconcile EBITDA to net income (loss), the most comparable financial measure under U.S. GAAP.

We believe that EBITDA permits a comparative assessment of our operating performance, relative to our performance based on our U.S. GAAP results, while isolating the effects of interest, taxes, depreciation and amortization, which may vary from period to period without any correlation to underlying operating performance. We provide information relating to our EBITDA so that securities analysts, investors and other interested parties have the same data that we employ in assessing our overall operations. We believe that trends in our EBITDA are a valuable indicator of our operating performance and of our ability to produce operating cash flows to fund working capital needs, to service debt obligations and to fund capital expenditures.

The term EBITDA is not defined under U.S. GAAP, and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Our EBITDA has limitations as an analytical tool, and when assessing our operating performance, EBITDA should not be considered in isolation, or as a substitute for net income (loss) or other consolidated statement of operations data prepared in accordance with U.S. GAAP. Some of these limitations include, but are not limited to, the following:

- EBITDA (1) does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; (2) does not reflect changes in, or cash requirements for, our working capital needs; (3) does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; (4) does not reflect income taxes or the cash requirements for any tax payments; and (5) does not reflect all of the costs associated with operating our business;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- other companies may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our U.S. GAAP results and using EBITDA only supplementally. EBITDA is calculated as follows for the periods presented:

	<i>Years Ended December 31</i>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$
Net income	1,663,690	3,032,327	2,311,031
Interest expense	696,132	253,617	54,971
Income taxes	145,458	240,487	187,634
Depreciation	560,073	343,841	182,307
Amortization	<u>50,000</u>	<u>-</u>	<u>-</u>
EBITDA	3,115,353	3,870,272	2,735,943

The decrease in EBITDA for the year ended December 31, 2007 as compared to the year ended December 31, 2006 was due in part to the increased costs of nickel in 2007, which we could not immediately pass along to our customers in 2007 through higher battery prices due to fixed-priced contracts. EBITDA for the year ended December 31, 2007 as compared to the year ended December 31, 2006 was also negatively impacted by fees and costs related to the reorganization of \$582,269 in 2007, as compared to \$75,229 in 2006, and loss on exchange rate difference of \$854,873 in 2007, as compared to \$199,231 in 2006.

## Years ended December 31, 2007 and 2006

Net sales for year the ended December 31, 2007 were \$73.3 million compared to \$44.4 million for the year ended December 31, 2006, an increase of 65.1%. The increase in net sales for the year ended December 31, 2007 over the year ended December 31, 2006 was due to a 31% increase in the average selling price of our battery units and a 26% increase in the number of battery units sold, including \$160,170 from the sale of battery seconds during the year ended December 31, 2007. The 31% increase in the average selling price of our battery units was due to our agreement with our major customers in March 2007 to adjust the selling prices of our batteries in accordance with the market price of nickel. Prior to March 2007, we fulfilled customer orders under fixed-price, long-term sales contracts under which the selling price of the batteries was determined according to nickel costs prior to the sharp increase in the cost of nickel which began at the end of 2006 and we were, therefore, unable to pass along the increased nickel costs on to our customers. However, after March 2007, we were able to adjust the sales price of our batteries based on the cost of nickel. The increase in the number of battery units sold in 2007 was primarily attributable to increased orders from our major customers, Energizer Battery Manufacturing, Inc. and Uniross Batteries (HK) Ltd.

Cost of sales consists of the cost of nickel and other materials. Costs of sales were \$63.8 million for the year ended December 31, 2007 as compared to \$37.0 million for the comparable period in 2006. As a percentage of net sales, cost of sales increased to 87.1% for the year ended December 31, 2007 compared to 83.3% for the comparable period in 2006. This was attributable to a 38% increase in the average per unit cost of goods sold during the year ended December 31, 2007 as compared to the comparable period in 2006, which resulted from a 61% increase in the average cost of nickel during the year ended December 31, 2007 compared to the comparable period in 2006.

Gross profit for the year ended December 31, 2007 was \$9.5 million, or 12.9% of net sales, compared to \$7.4 million, or 16.7% of net sales, respectively, for the comparable period in 2006. Management considers gross profit to be a key performance indicator in managing our business. Gross profit margins are usually a factor of cost of sales, product mix and demand for product. The decrease in our gross profit margin for the year ended December 31, 2007 is primarily due to increases in the price of nickel which we did not pass along to our customers for a portion of 2007 due to our sales price commitments.

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

Selling and distribution costs were \$2.1 million for the year ended December 31, 2007, compared to \$1.6 million for the comparable period in 2006. The increase was due to the expansion of our market share, which increased 2% in terms of the worldwide market in volume and 1.5% in terms of worldwide market value in 2007 over 2006. Our market share increased due to our increased promotion of our products and our expansion of our team of sales representatives.

General and administrative costs were \$3.5 million, or 4.7% of net sales, for the year ended December 31, 2007, compared to \$2.0 million, or 4.4% of net sales, for the comparable period in 2006. Management considers these expenses as a percentage of net sales to be a key performance indicator in managing our business. The increase as a percentage of net sales was primarily due to an increase in personnel and labor costs, which increased \$380,000 for year ended December 31, 2007 over the comparable period in 2006 due to the expansion of our technician and marketing team to expand our market share. Although we anticipate our general and administrative expenses to continue to increase on an absolute dollar basis as a result of additional legal, accounting and other related costs from becoming a public reporting company, we do not believe that general and administrative expenses as a percentage net sales will trend upward as we believe that our net sales will also increase.

We experienced losses on the exchange rate difference between the U.S. Dollar and the RMB of \$855,000 and \$199,000, respectively, in the years ended December 31, 2007 and 2006, an increase of 330%, due to the devaluation of the U.S. Dollar relative to the RMB over the respective periods. Beginning in 2008, to cope with devaluation of the U.S. Dollar relative to the RMB, we are engaging in currency hedging and adjusting the selling price of batteries to vary with the U.S. Dollar exchange rate relative to the RMB.

All costs associated with the reverse merger transaction, consisting primarily of consideration paid to the previous control parties of SRKP 11 and legal and investment banking fees and costs, were expensed as incurred as a cost of the recapitalization, and have been presented as an operating cost line item entitled "fees and costs related to reorganization" in the statement of operations. These costs were \$582,000 and \$75,000 for the years ended December 31, 2007 and 2006, respectively (as restated).

Interest expense was \$696,000 for the year ended December 31, 2007, as compared to \$254,000 for the respective comparable period in 2006. The increase was primarily due to higher borrowing levels. We increased our borrowings by \$9.46 million in the year ended December 31, 2007 as compared to the year ended December 31, 2006. Increases in borrowing rates would further increase our interest expense, which would have a negative effect on our results of operations.

During the year ended December 31, 2007, we recorded a provision for income taxes of \$145,000, as compared to \$240,000 for the respective comparable period in 2006. The decrease in income taxes for the year ended December 31, 2007 as compared to the year ended December 30, 2006 was a result of a decrease in our net taxable income.

Net income for the year ended December 31, 2007 was \$1.7 million, compared to a net income of \$3.0 million for the comparable period in 2006.

#### **Years ended December 31, 2006 and 2005**

Net sales for the year ended December 31, 2006 were \$44.4 million as compared to \$25.0 million for the year ended December 31, 2005, an increase of 78%. This increase was largely due to a 75.6% increase in the number of battery units sold, including an increase in the sales of battery seconds of \$356,478. We believe that this increase in net sales is a sustainable trend because worldwide demand for Ni-MH batteries is growing at a rate of 15% per year, excluding the market for hybrid electrical vehicle ("HEV") batteries, according to a report by Avicenne Forecasts dated June 2007. With Japanese battery factories increasingly shifting their production to HEV batteries, we will be able to increase our market share for the sale of Ni-MH batteries.

Cost of sales for the year ended December 31, 2006 was \$37.0 million or 83.6% of net sales, as compared to \$20.8 million for the year ended December 31, 2005 or 83.0% of net sales. The increase in total dollars and as a percentage of net sales was attributable to higher costs associated with our products, principally due to the rising cost of nickel which began in late 2006.

Gross profit for the year ended December 31, 2006 was \$7.4 million, or 16.7% of net sales, compared to \$4.3 million, or 17.0% of net sales for the year ended December 31, 2005. The decrease in our gross profit margin for the year ended December 31, 2006 is primarily due to an increase in the price of nickel that we were unable to pass along to customers in the form of higher prices charged for our battery products. During 2006 when the cost of nickel began to rise, we were unable to raise our battery prices to account for the increase in the cost of nickel because we sold our batteries under fixed-price agreement under which the prices were determined prior to the increase in the cost of nickel.

Selling and distribution costs were \$1.6 million for the year ended December 31, 2006, compared to \$857,000 for the comparable period in 2005. The increase was due to the expansion of our market share, which increased 3% in terms of the worldwide market in volume and 2% in terms of worldwide market value in 2006 over 2005. Our market share increased due to our increased promotion of our products and our expansion of our team of sales representatives.

General and administrative costs were \$2.0 million, or 4.4% of net sales, for the year ended December 31, 2006, as compared to \$854,000 or 3.4% of net sales, for the year ended December 31, 2005. The increase as a percentage of net sales was primarily due to increased labor costs and research and development expenses. Labor and personnel costs increased \$240,000 for the year ended December 31, 2006 over the year ended December 31, 2005 due to the expansion of our workforce to expand production. Research and development expenses increased \$320,000 for the year ended December 31, 2006 over the year ended December 31, 2005 due to our increased commitment to advance our research and development activities.

We experienced losses on the exchange rate difference between the U.S. Dollar and the RMB of \$199,000 and \$0, respectively, in the years ended December 31, 2006 and 2005, due to the devaluation of the U.S. Dollar relative to the RMB over the respective periods.

All costs associated with the reverse merger transaction, consisting primarily of consideration paid to the previous control parties of SRKP 11 and legal and investment banking fees and costs, were expensed as incurred as a cost of the recapitalization, and have been presented as an operating cost line item entitled "fees and costs related to reorganization" in the statement of operations. These costs were \$75,000 and \$0 for the years ended December 31, 2006 and 2005, respectively.

Interest expense was \$254,000 for the year ended December 31, 2006 compared to \$55,000 for the year ended December 31, 2005. This increase is primarily attributable to higher borrowing levels to maintain adequate inventory. We increased our borrowings by \$4.99 million during the year ended December 31, 2006 as compared to the year ended December 31, 2005.

Other income from operations, which consists of bank interest income, exchange gains and losses and sundry income, was \$59,000, for the year ended December 31, 2006, as compared to \$58,000 for the year ended December 31, 2005, an increase of 0.01%. The increase was primarily due to an \$8,000 increase in bank interest income and a \$10,000 increase in sundry income, offset by a \$17,000 decrease in net exchange gains.

During the year ended December 31, 2006, we recorded a provision for income taxes of \$240,000 compared to \$188,000 for the year ended December 31, 2005. The increase was the result of an increase in our net taxable income.

Net income for the year ended December 31, 2006 was \$3.0 million, compared to net income of \$2.3 million for the year ended December 31, 2005.

### **Liquidity and Capital Resources**

To provide liquidity and flexibility in funding our operations, we borrow amounts under bank facilities and other external sources of financing. As of December 31, 2007, we had in place general banking facilities with five financial institutions aggregating \$24.17 million. The maturity of these facilities is generally up to one year. The facilities are subject to annual review and approval. These banking facilities are guaranteed by us and some of our shareholders, including Dang Yu Pan, Wen Liang Li and Wen Wei Ma, and contain customary affirmative and negative covenants for secured credit facilities of this type. However, these covenants do not have any impact on our ability to undertake additional debt or equity financing. Interest rates are generally based on the banks' reference lending rates. No significant commitment fees are required to be paid for the banking facilities. As of December 31, 2007, we had utilized approximately \$15.41 million under such general credit facilities and had available unused credit facilities of \$8.76 million.

On November 2, 2007, upon the closing of a private placement, we received gross proceeds of \$3.1 million in a private placement transaction (the "Private Placement"). Pursuant to Subscription Agreements entered into with the investors, we sold an aggregate of 2,836,364 shares of Common Stock at \$1.10 per share. We agreed to file a registration statement covering the common stock sold in the Private Placement within 30 days of the closing of the Share Exchange pursuant to the subscription agreement with each investor. For its services in connection with the Share Exchange and as placement agent, the placement agent received an aggregate commission equal to 10% of the gross proceeds from the Private Placement, in addition to \$30,000 in connection with the execution of the Exchange Agreement and a \$40,000 success fee for the Share Exchange, for an aggregate amount fee of \$382,000.

For the year ended December 31, 2007, net cash used in operating activities was approximately \$1.5 million, as compared to \$2.1 million for the comparable period in 2006. The decrease in net cash used by operating activities is primarily attributable to a decrease in inventory levels. For the year ended December 31, 2006, net cash used in operating activities was \$2.1 million as compared to net cash provided by operating activities of \$852,000 for the year ended December 31, 2005. The increase in net cash used in operating activities is primarily attributable to an increase in inventory levels.

Net cash used in investing activities was \$4.9 million for the year ended December 31, 2007 compared to \$1.7 million for the comparable period in 2006. The increase of cash used in investing activities was primarily attributable to the acquisition of land equity in HuiZhou, and deposits paid for the acquisition of equipment. Net cash used in investing activities was \$1.7 million in the year ended December 31, 2006 as compared to \$839,000 for the year ended December 31, 2005. The increase in net cash used in investing activities is primarily attributable to the acquisition of plant and equipment.

Net cash provided by financing activities was \$7.4 million for the year ended December 31, 2007 as compared to \$3.8 million for the comparable period in 2006. The increase in net cash provided by financing activities was attributable to an increase in bank borrowings of \$9.46 million in 2007. Net cash provided by financing activities was approximately \$3.8 million for the year ended December 31, 2006 as compared to \$149,000 for the year ended December 31, 2005. The increase in net cash provided by financing activities is primarily attributable to an increase in bank borrowings of \$5 million for the year ended December 31, 2006.

For the years ended December 31, 2007, 2006 and 2005, our inventory turnover was 4.25, 3.47 and 5.13 times, respectively. The average days outstanding of our accounts receivable at December 31, 2007 were 60 days, as compared to 53 days at December 31, 2006. Inventory turnover and average days outstanding are key operating measures that management relies on to monitor our business. In the next 12 months, we expect to expand our research, development and manufacturing of lithium-based batteries and anticipate additional capital expenditures of approximately \$3.0 million.

We are required to contribute a portion of our employees' total salaries to the Chinese government's social insurance funds, including medical insurance, unemployment insurance and job injuries insurance, and a housing assistance fund, in accordance with relevant regulations. We expect these contributions will contribute to administrative and other operating expenses in an amount of approximately \$30,000 per month based on the size of our current workforce. We expect the amount of our contribution to the government's social insurance funds to increase in the future as we expand our workforce and operations.

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

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

## Guarantees of Bank Loans

Dang Yu Pan, our Chairman and Chief Executive Officer, Wen Liang Li, our Vice President, Chief Technology Officer and director, and Wen Wei Ma, our Vice President of Manufacturing, each have provided personal guarantees under our outstanding banking facilities. The following table shows the amount outstanding on each of our bank loans as of December 31, 2007 and the identity of the officer(s) who guaranteed each loan.

Name of Bank	Amount Granted	Amount Outstanding Under Loan	Guaranteed by Officers
DBS Bank (China) Limited	\$ 11.18 million	\$ 5.03 million	Dang Yu Pan, Wen Liang Li, Wen Wei Ma
Shenzhen Development Bank Co., Ltd	\$ 6.82 million	\$ 5.17 million	Dang Yu Pan
Shanghai Pudong Development Bank Co. Ltd.	\$ 3.9 million	\$ 2.96 million	Dang Yu Pan
Citibank China Co., Ltd.	\$ 2.0 million	\$ 0.68 million	Dang Yu Pan, Wen Liang Li, Wen Wei Ma

Pursuant to the Letter of Undertaking related to the loan from DBS Bank (China) Limited, Mr. Pan, Mr. Li and Mr. Ma agreed to enter into a guarantee contract with the bank to guarantee all the outstanding debts of our subsidiary, Shenzhen Highpower, whether such debts are payments, obligations or liabilities already existing or contingent.

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

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

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



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

### Contractual Obligations

This table summarizes our known contractual obligations and commercial commitments at December 31, 2007.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facilities	\$ 15,410,542	\$ 15,410,542	-	-	-
Purchase Obligations (1)	\$ 19,561,118	\$ 19,561,118	-	-	-
License Agreement	\$ 1,327,026	\$ 1,327,026	-	-	-
Capital commitment	\$ 146,647	\$ 146,647	-	-	-
<b>Total</b>	<b>\$ 36,445,333</b>	<b>\$ 36,445,333</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

### Inflation and Seasonality

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

### Off-Balance Sheet Arrangements

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

### New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The provisions of this statement should be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, except in some circumstances where the statement shall be applied retrospectively. We are currently evaluating the effect, if any, of SFAS 157 on our financial statements. Management does not believe the adoption of SFAS 157 will have a material impact on the Company's consolidated financial statements.

On February 15, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of SFAS No. 115" ("SFAS 159"). The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157. We have not chosen to early adopt this statement. Management does not believe the adoption of SFAS 159 will have a material impact on the Company's consolidated financial statements.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141(R), “Business Combinations” (“SFAS No. 141(R)”), which requires an acquirer to recognize in its financial statements as of the acquisition date (i) the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, measured at their fair values on the acquisition date, and (ii) goodwill as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Acquisition-related costs, which are the costs an acquirer incurs to effect a business combination, will be accounted for as expenses in the periods in which the costs are incurred and the services are received, except that costs to issue debt or equity securities will be recognized in accordance with other applicable GAAP. SFAS No. 141(R) makes significant amendments to other pronouncements and other authoritative guidance to provide additional guidance or to conform the guidance in that literature to that provided in SFAS No. 141(R). SFAS No. 141(R) also provides guidance as to what information is to be disclosed to enable users of financial statements to evaluate the nature and financial effects of a business combination. SFAS No. 141(R) is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. Early adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (“SFAS No. 160”), which revises the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require (i) the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent’s equity, (ii) the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income, (iii) changes in a parent’s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently as equity transactions, (iv) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value, with the gain or loss on the deconsolidation of the subsidiary being measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment, and (v) entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 amends FASB No. 128 to provide that the calculation of earnings per share amounts in the consolidated financial statements will continue to be based on the amounts attributable to the parent. SFAS No. 160 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. SFAS No. 160 shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. The Company has not yet determined the effect on its consolidated financial statements, if any, upon adoption of SFAS No. 160.

## **Change in Accountants**

On November 2, 2007, we dismissed AJ. Robbins, PC (“AJ. Robbins”) as our independent registered public accounting firm following the change in control of our company on the closing of the Share Exchange. We engaged AJ. Robbins to audit our financial statements for the year ended December 31, 2006. The decision to change accountants was approved and ratified by our Board of Directors. The report of AJ. Robbins on the financial statements of our company for the year ended December 31, 2006 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principle, except for an explanatory paragraph relative to our ability to continue as a going concern. Additionally, during the Company’s two most recent fiscal years and any subsequent interim period, there were no disagreements with AJ Robbins on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

While AJ. Robbins was engaged by us, there were no disagreements with AJ. Robbins on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure with respect to our company, which disagreements if not resolved to the satisfaction of AJ. Robbins would have caused it to make reference to the subject matter of the disagreements in connection with its report on our financial statements for the year ended December 31, 2006.

We engaged Dominic K.F. Chan & Co. as our independent registered public accounting firm as of November 2, 2007. Dominic K.F. Chan & Co. has served as HKHT’s independent registered certified public accountants since October 2006.

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

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

**PART IV**

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

1. Financial Statements: See “Index to Consolidated Financial Statements” in Part II, Item 8 of this annual report on Form 10-K/A.
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/A.

**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 June 27, 2008.

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

Dated: June 27, 2008

*/s/ Dang Yu Pan*

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

**HONG KONG HIGHPOWER TECHNOLOGY, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007, 2006 AND 2005**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Hong Kong Highpower Technology Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2007 and 2006, and the related statements of operations, stockholders' equity and cash flows for the years ended December 31, 2007, 2006 and 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years ended December 31, 2007, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ Dominic K.F. Chan & Co.

Dominic K.F. Chan & Co  
Certified Public Accountants  
Hong Kong  
17 March, 2008

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(Stated in U.S. Dollars)

	<i>At December 31,</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
<b>ASSETS</b>		
Current Assets :		
Cash and cash equivalents	1,489,262	488,070
Restricted cash	5,453,650	1,010,580
Accounts receivable	15,906,175	8,127,170
Notes receivable	386,482	76,764
Prepaid expenses and other receivables - Note 6	2,501,796	2,612,091
Advance to related parties – Note 11	-	634,161
Inventories– Note 7	14,371,289	15,623,791
Prepaid lease payments	58,570	-
<b>Total Current Assets</b>	<b>40,167,224</b>	<b>28,572,627</b>
Deferred tax assets – Note 6	28,277	8,443
Deposit paid for acquisition of machinery –Note 15	1,115,123	-
Plant and equipment, net – Note 8	3,789,382	3,154,660
Leasehold land – Note 9	2,869,925	-
Intangible asset, net – Note 10	950,000	-
<b>TOTAL ASSETS</b>	<b>48,919,931</b>	<b>31,735,730</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities :		
Accounts payable	19,561,118	17,327,402
Other payables and accrued liabilities – Note 11	2,320,956	1,170,275
Income taxes payable	73,768	122,710
Bank borrowings – Note 13	15,410,542	5,950,626
<b>Total Current Liabilities</b>	<b>37,366,384</b>	<b>24,571,013</b>
<b>COMMITMENTS AND CONTINGENCIES – Note 15</b>		

(continued)

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)  
(Stated in U.S. Dollars)

	<i>At December 31,</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock		
Par value: US\$0.0001		
Authorized: 10,000,000 shares		
Issued and outstanding: none	-	-
Common stock		
Par value : \$0.0001		
Authorized: 100,000,000 shares		
Issued and outstanding: 2007 –20,478,090 shares (2006 –14,798,328 shares)	2,048	1,480
Additional paid-in capital	2,765,102	62,837
Accumulated other comprehensive income	1,157,872	470,383
Retained earnings	<u>7,628,525</u>	<u>6,630,017</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>11,553,547</u>	<u>7,164,717</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>48,919,931</u>	<u>31,735,730</u>

See accompanying notes to consolidated financial statements.



HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
(Stated in U.S. Dollars)

	<i>Year ended December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$
	(restated – Note 1)	(restated – Note 1)	
Net sales	73,261,720	44,375,682	25,010,030
Cost of sales	<u>(63,791,248)</u>	<u>(36,958,529)</u>	<u>(20,757,320)</u>
Gross profit	9,470,472	7,417,153	4,252,710
Depreciation	(120,517)	(80,213)	(46,209)
Selling and distribution costs	(2,095,594)	(1,634,366)	(856,526)
General and administrative costs	(3,460,592)	(1,960,271)	(854,246)
Loss on exchange rate difference	(854,873)	(199,231)	-
Fees and costs related to reorganization	<u>(582,269)</u>	<u>(75,229)</u>	<u>-</u>
Income from operations	2,356,627	3,467,843	2,495,729
Other income – Note 3	148,653	58,588	57,907
Interest expense – Note 4	<u>(696,132)</u>	<u>(253,617)</u>	<u>(54,971)</u>
Income before taxes	1,809,148	3,272,814	2,498,665
Income taxes – Note 6	<u>(145,458)</u>	<u>(240,487)</u>	<u>(187,634)</u>
Net income	<u>1,663,690</u>	<u>3,032,327</u>	<u>2,311,031</u>
Net Income per share			
- Basic and diluted	<u>0.11</u>	<u>0.20</u>	<u>0.16</u>
Weighted average common shares outstanding			
- Basic and diluted	<u>15,731,988</u>	<u>14,798,328</u>	<u>14,798,328</u>

See accompanying notes to consolidated financial statements

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(Stated in U.S. Dollars)

	<i>Common stock</i>		<i>Additional paid-in capital</i>	<i>Accumulated other comprehensive income</i>	<i>Retained earnings</i>	<i>Total</i>
	<i>Shares</i>	<i>Amount</i> \$				
Balance, January 1, 2005	14,798,328	1,480	62,837	43	1,286,659	1,351,019
Net income	-	-	-	-	2,311,031	2,311,031
Foreign currency translation adjustments	-	-	-	195,010	-	195,010
Total comprehensive income	-	-	-	-	-	2,506,041
Balance, December 31, 2005	14,798,328	1,480	62,837	195,053	3,597,690	3,857,060
Comprehensive income						
Net income	-	-	-	-	3,032,327	3,032,327
Foreign currency translation adjustments	-	-	-	275,330	-	275,330
Total comprehensive income	-	-	-	-	-	3,307,657
Balance, December 31, 2006	14,798,328	1,480	62,837	470,383	6,630,017	7,164,717
Shares Issued in connection with reverse merger	2,834,398	284	(35,451)	-	-	(35,167)
Shares issued in private placement, net of offering cost of \$382,000	2,836,364	284	2,737,716	-	-	2,738,000
Comprehensive income						
Net income	-	-	-	-	1,663,690	1,663,690
Foreign currency translation adjustments	-	-	-	687,489	-	687,489
Total comprehensive income	-	-	-	-	-	2,351,179
Dividends	-	-	-	-	(665,182)	(665,182)
Balance, December 31, 2007	<u>20,478,090</u>	<u>2,048</u>	<u>2,765,102</u>	<u>1,157,872</u>	<u>7,628,525</u>	<u>11,553,547</u>

See accompanying notes to consolidated financial statements

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Stated in U.S. Dollars)

	<i>Year ended December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$
<b>Cash flows from operating activities</b>			
Net income	1,663,690	3,032,327	2,311,031
Adjustments to reconcile net income to net cash provided by (used in) operating activities :			
Bad debts written off	3,649	22,878	9,645
Depreciation	560,073	343,841	182,307
Amortization of intangible asset	50,000	-	-
Loss on disposal of plant and equipment	20,046	32,844	5,261
Changes in operating assets and liabilities :			
(Increase) decrease in -			
Accounts receivable	(7,018,013)	(3,155,007)	(1,778,398)
Notes receivable	(309,829)	620,101	(511,456)
Prepaid expenses and other receivables	305,785	(1,826,594)	(313,424)
Inventories	2,183,344	(9,556,898)	(3,148,845)
Increase (decrease) in -			
Accounts payable	1,082,433	8,387,286	3,814,931
Other payables and accrued liabilities	78,974	(32,771)	154,267
Income taxes payable	(74,825)	27	126,803
Net cash provided by (used in) operating activities	<u>(1,454,673)</u>	<u>(2,132,020)</u>	<u>852,122</u>
<b>Cash flows from investing activities</b>			
Acquisition of plant and equipment	(1,030,725)	(1,733,167)	(849,768)
Acquisition of land	(2,832,348)	-	-
Proceeds from disposal of plant and equipment	32,976	13,747	11,186
Deposit paid for acquisition of machinery	(1,115,123)	-	-
Net cash used in investing activities	<u>(4,945,220)</u>	<u>(1,719,420)</u>	<u>(838,582)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common stock	2,738,000	-	-
Proceeds from new short-term bank loans	2,374,241	879,630	977,681
Repayment of short-term bank loans	(923,316)	(973,876)	(274,973)
Proceeds from (repayment of) other loans	4,173,106	-	(85,547)
Net advancement of other bank borrowings	3,155,109	4,955,996	-
Increase in restricted cash	(4,234,327)	(991,050)	-
Repayment from (advance to)	726,169	(38,495)	(468,151)
Dividend paid	(665,182)	-	-
Net cash provided by financing activities	<u>7,343,800</u>	<u>3,832,205</u>	<u>149,010</u>
Net increase (decrease) in cash and cash equivalents	943,907	(19,235)	162,550
Effect of foreign currency translation on cash and cash equivalents	57,285	40,279	5,968
Cash and cash equivalents - beginning of year	<u>488,070</u>	<u>467,026</u>	<u>298,508</u>
Cash and cash equivalents - end of year	<u>1,489,262</u>	<u>488,070</u>	<u>467,026</u>

See accompanying notes to consolidated financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

**1. Organization and Basis of Presentation**

SRKP 11, Inc. ("SRKP 11") was incorporated in the State of Delaware on January 3, 2006 to locate a suitable acquisition candidate to acquire.

On October 20, 2007, SRKP 11 entered into a share exchange agreement (the "Exchange Agreement") with Hong Kong Highpower Technology Company Limited ("HKHTC"), which was incorporated in Hong Kong on July 4, 2003 under the Hong Kong Companies Ordinance. HKHTC was organized principally to engage in the manufacturing and trading of nickel metal hydride rechargeable batteries.

As used herein, the "Company" refers to SRKP 11 and its wholly-owned subsidiaries, HKHTC and Shenzhen Highpower Technology Co., Ltd., unless the context indicates otherwise.

Pursuant to the Exchange Agreement, SRKP 11 agreed to issue shares of its common stock in exchange for all of the issued and outstanding securities of HKHTC. On November 2, 2007, upon the closing of the Exchange Agreement, HKHTC had a total of 500,000 shares of common stock issued and outstanding, and SRKP 11 issued an aggregate of 14,798,328 shares of its common stock to the shareholders of HKHTC in exchange for all of the issued and outstanding securities of HKHTC on the basis of 29,596,656 shares of SRKP 11 for each share of HKHTC. The 14,798,328 shares of common stock issued to the shareholders of HKHTC in conjunction with this transaction have been presented as outstanding for all periods presented. In addition, immediately prior to the closing of the Exchange Agreement, SRKP 11 and certain of its stockholders agreed to cancel an aggregate of 2,556,602 shares of outstanding common stock, as a result of which there were 2,843,398 shares of common stock outstanding immediately prior to the share exchange transaction.

On November 2, 2007, concurrently with the close of the Exchange Agreement, the Company received gross proceeds of \$3,120,000 in a private placement transaction (the "Private Placement"). Pursuant to subscription agreements entered into with the investors, the Company sold an aggregate of 2,836,364 shares of common stock at \$1.10 per share. The investors in the Private Placement also entered into lock-up agreements pursuant to which they agreed not to sell their shares until 90 days after the Company's common stock is listed or quoted on either the New York Stock Exchange, American Stock Exchange, NASDAQ Global Market, NASDAQ Capital Market or the OTC Bulletin Board, when one-tenth of their shares are released from the lock-up agreement, after which their shares will automatically be released from the lock-up agreement on a monthly basis pro rata over a nine-month period. After commissions and expenses, the Company received net proceeds of approximately \$2,738,000 from the Private Placement.

# HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Stated in U.S. Dollars)

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

Immediately after the closing of the Exchange Agreement and Private Placement, the Company had 20,478,090 shares of common stock issued and outstanding. Upon the closing of the Exchange Agreement, the shareholders of HKHTC and their designees owned approximately 72.3% of the Company's issued and outstanding common stock, the pre-existing shareholders of the Company owned approximately 13.9% of the Company's issued and outstanding common stock, and the investors in the Private Placement owned 13.8% of the Company's issued and outstanding common stock. Therefore, although HKHTC became the Company's wholly-owned subsidiary, the transaction was accounted for as a recapitalization in the form of a reverse merger of HKHTC, whereby HKHTC was deemed to be the accounting acquirer and was deemed to have retroactively adopted the capital structure of SRKP 11. Since the transaction was accounted for as a reverse merger, the accompanying consolidated financial statements reflect the historical consolidated financial statements of HKHTC for all periods presented, and do not include the historical financial statements of SRKP 11. All costs associated with the reverse merger transaction, consisting primarily of consideration paid to the previous control parties of SRKP 11 and legal and investment banking fees and costs, were expensed as incurred as a cost of the recapitalization, and have been presented as an operating cost line item entitled "fees and costs related to reorganization" in the statement of operations.

The Company reclassified the line item entitled "fees and costs related to reorganization" from other income (expense) to an operating cost line item in the statement of operations for the years ended December 31, 2007 and 2006. The Company also reclassified \$136,997 of accounting costs originally classified in fees and costs related to reorganization in 2007 to general and administrative expenses to more properly reflect their purpose. The Company also reclassified loss on exchange rate difference to a separate operating cost line item in the statement of operations, which had previously been included in general and administrative costs. These reclassifications had no effect on net income for the years ended December 31, 2007 or 2006. The Company also made minor corrections to certain line item amounts in cash flows from financing activities for the year ended December 31, 2007, which did not have an effect on net cash provided by financing activities in 2007. As a result of the foregoing revisions, the Company has labeled the statements of operations for the years ended December 31, 2007 and 2006 as "restated."

In December 2005, HKHTC underwent a group reorganization (the "Reorganization"), which was approved by authorized institutions, pursuant to which it acquired all of the outstanding common stock of Shenzhen Highpower Technology Co., Ltd. ("SZ Highpower") from its then existing stockholders, Pan Dangu, Li Kai Man, Li Wenliang and Ma Wenwei (the "Stockholders"). SZ Highpower was incorporated on October 8, 2002 in the People's Republic of China.

The above-mentioned Stockholders were the common stockholders for both HKHTC and SZ Highpower. The acquisition was financed by a short-term loan bearing interest of \$75,229 (equivalent to HK\$584,000), which was charged to operations. The transaction was accounted for as a corporate reorganization of entities under common control.

As a result of the Reorganization in 2005, SZ Highpower became the wholly-owned subsidiary of HKHTC and became its main operating business.

### 2. Summary of significant accounting policies

#### Basis of presentation

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

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

Consolidation

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

Use of estimates

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

Comparative amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation. These reclassifications had no effect on reported total assets, liabilities, stockholders' equity or net income.

Economic and political risks

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

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

Concentrations of credit risk

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

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

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

Concentrations of credit risk (continued)

In 2007, the Company had two major customers, one representing 24% of sales and the other 17% of sales; accounts receivable from these customers at December 31, 2007 was \$8,300,000. There were no customers representing 10% or more in sales in 2006. One customer represented 12.5% of sales in 2005 and \$1,900,000 of accounts receivable at December 31, 2005.

Cash and cash equivalents

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

Restricted cash

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

Accounts receivable

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

During the years ended December 31, 2007, 2006 and 2005, the Company experienced bad debts of \$27,664, \$22,878 and \$9,645, respectively.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined on a weighted average basis and includes purchase costs, direct labor and factory overheads. There are no significant freight charges, inspection costs and warehousing costs incurred for any of the periods presented. In assessing the ultimate realization of inventories, management makes judgments as to future demand requirements compared to current or committed inventory levels. The Company's reserve requirements generally increase based on management's projected demand requirements, and decrease due to market conditions and product life cycle changes. During the years ended December 31, 2007, 2006 and 2005, the Company did not make any allowance for slow-moving or defective inventories. The Company's production process results in a minor amount of waste materials. The Company does not record a value for the waste in its cost accounting. The Company records proceeds on an as realized basis, when the waste is sold. The Company has offset the proceeds from the sales of waste materials as a reduction of production costs. Proceeds from the sales of waste materials were approximately \$160,000 in 2007, \$99,000 in 2006 and \$73,000 in 2005. Generally, waste materials on hand at the end of a year are nominal.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)**2. Summary of significant accounting policies (continued)**Plant and equipment

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

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

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

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

Intangible Assets and Long-Lived Assets

SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. Accordingly, the consumer battery license is being amortized over its useful life of 20 years. The Company does not have any goodwill.

The Company accounts for the impairment of long-lived assets, such as plant and equipment, leasehold land and intangible assets, under the provisions of SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets" ("SFAS 144"). SFAS 144 establishes the accounting for impairment of long-lived tangible and intangible assets other than goodwill and for the disposal of a business. Pursuant to SFAS 144, the Company periodically evaluates, at least annually, whether facts or circumstances indicate that the carrying value of its depreciable assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. In the event that the carrying amount of long-lived assets exceeds the undiscounted future cash flows, then the carrying amount of such assets is adjusted to their fair value. The Company reports an impairment cost as a charge to operations at the time it is recognized.

There was no impairment of long-lived assets in 2005, 2006 or 2007.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

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

Revenue recognition

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

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

Advertising and promotion expenses

Advertising and promotion expenses are charged to expense as incurred.

Advertising and promotion expenses amounted to \$68,169, \$96,045 and \$117,191 for the years ended December 31, 2007, 2006 and 2005, respectively, and are included in selling and distribution costs.

Income taxes

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

Comprehensive income

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Accumulated other comprehensive income represents the accumulated balance of foreign currency translation adjustments of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

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

Foreign currency translation

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

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

	2007	2006	2005
Year end RMB : US\$ exchange rate	7.332	7.804	8.070
Average yearly RMB : US\$ exchange rate	7.581	7.958	8.183

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

Transactions and balances

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

Fair value of financial instruments

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

The Company is exposed to certain foreign currency risk from export sales transactions and the related accounts receivable as they will affect the future operating results of the Company. The Company did not have any hedging activities during the reporting periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

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

Earnings per share

The Company reports earnings per share in accordance with SFAS No. 128, "Earnings Per Share". Basic earnings per share is computed using the weighted average number of common shares outstanding during the periods presented. The weighted average number of shares represents the common stock outstanding during the years, as adjusted retroactively to reflect the November 2007 recapitalization as described at Note 1. As the Company did not have any common stock equivalents during such years, basic and diluted earnings per share were the same for all periods presented.

Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The provisions of this statement should be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, except in some circumstances where the statement shall be applied retrospectively. The Company is currently evaluating the effect, if any, of SFAS 157 on its financial statements. Management does not believe the adoption of SFAS 157 will have a material impact on the Company's consolidated financial statements.

On February 15, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of SFAS No. 115" ("SFAS 159"). The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157. The Company has not chosen to adopt this statement early. Management does not believe the adoption of SFAS 159 will have a material impact on the Company's consolidated financial statements.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

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

Recent accounting pronouncements (continued)

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"), which requires an acquirer to measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. Acquisition-related costs, which are the costs an acquirer incurs to effect a business combination, will be accounted for as expenses in the periods in which the costs are incurred and the services are received, except that the costs to issue debt or equity securities will be recognized in accordance with other GAAP. SFAS 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"), which clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. Management does not anticipate that the adoption of SFAS 160 will have a material impact on the Company's consolidated financial statements.

3. **Other income**

	<i>Years ended December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$
Bank interest income	75,546	11,626	3,625
Net exchange gains	-	-	15,989
Sundry income	73,107	46,962	37,293
	<u>148,653</u>	<u>58,588</u>	<u>57,907</u>

4. **Interest expense**

	<i>Years ended December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$
Interest on trade related bank loans	547,573	208,269	26,610
Interest on short-term bank loans	135,369	45,348	25,795
Interest on other loans	13,190	-	2,566
	<u>696,132</u>	<u>253,617</u>	<u>54,971</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

5. **Income taxes**

The components of income before income taxes are:

	<i>Years ended December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$
United States	(490,234)	-	-
Hong Kong	689,749	(76,601)	(3,122)
People's Republic of China	1,609,633	3,349,415	2,501,787
	<u>1,809,148</u>	<u>3,272,814</u>	<u>2,498,665</u>

The components of the provision for income taxes are:

	<i>Years ended December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$
<b>PRC income tax</b>			
Current year	173,735	241,313	178,378
Deferred taxes	(28,277)	(826)	9,256
	<u>145,458</u>	<u>240,487</u>	<u>187,634</u>

The following table accounts for the differences between the actual tax provision and the amounts obtained by applying the applicable statutory income tax rate to income before taxes for the years ended December 31, 2007, 2006 and 2005, respectively.

	<i>Years ended December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$
Income before taxes	<u>1,809,148</u>	<u>3,272,814</u>	<u>2,498,665</u>
Provision for income taxes at applicable income tax rate	271,372	490,922	374,799
Income not subject to tax	(84,614)	(2,522)	-
Non-deductible expenses for income tax purposes	229	11,490	468
Tax exemption of PRC subsidiary	(133,885)	(243,835)	(178,378)
Tax rate differential	94,865	825	(9,255)
Others	(2,509)	(16,393)	-
	<u>145,458</u>	<u>240,487</u>	<u>187,634</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

5. **Income taxes (continued)**

The major components of deferred tax recognized in the consolidated balance sheets as of December 31, 2007 and 2006 are as follows:

	<i>At December 31</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
<b>Temporary difference on:</b>		
Recognition of expenses	(24,527)	(8,443)
Accelerated tax depreciation on intangible assets	<u>(3,750)</u>	<u>-</u>
<b>Deferred tax assets, net</b>	<u><u>(28,277)</u></u>	<u><u>(8,443)</u></u>
<b>Recognized in the balance sheet:</b>		
Net deferred tax assets	<u><u>(28,277)</u></u>	<u><u>(8,443)</u></u>

In accordance with the relevant tax laws and regulations of PRC, the corporation income tax rate is 15%. However, in accordance with the relevant taxation laws in the PRC, from the time that the Company has its first profitable tax year, it is exempt from corporate income tax for its first two years and is then entitled to a 50% tax reduction for the succeeding three years. The Company's first profitable tax year was 2003. SZ Highpower will be levied at the 15% tax rate in 2008. The pro forma effect of this exemption is as follows:

	<i>Years ended December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$
Statutory income tax rate	15%	15%	15%
Exempted income tax rate	7.5%	7.5%	7.5%
<b>Income tax exemption</b>	<u><u>133,885</u></u>	<u><u>243,835</u></u>	<u><u>178,378</u></u>
<b>Tax effect derived from exemption</b> (per share)	<u><u>\$ 0.01</u></u>	<u><u>\$ 0.02</u></u>	<u><u>\$ 0.01</u></u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

5. **Income taxes (continued)**

Accounting for Uncertainty in Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes," and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Based on the Company's evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The evaluation was performed for the tax years ended December 31, 2004, 2005, 2006 and 2007, the tax years which remain subject to examination by major tax jurisdictions (PRC) as of December 31, 2007.

The Company may from time to time be assessed interest or penalties by major tax jurisdictions. In the event it receives an assessment for interest and/or penalties, it will be classified in the financial statements as tax expense.

6. **Prepaid expenses and other receivables**

	<i>At December 31,</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
Purchase deposits paid	264,138	935,417
Advance to staff	74,502	21,540
Other deposits and prepayments	147,503	130,870
Value-added tax prepayment	1,103,063	1,220,524
Other receivables	912,590	303,740
	<u>2,501,796</u>	<u>2,612,091</u>

7. **Inventories**

	<i>At December 31</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
Raw materials	4,507,255	5,040,028
Work in progress	1,694,997	1,415,942
Finished goods	8,101,083	9,096,003
Consumables	49,197	52,122
Packing materials	18,757	19,696
	<u>14,371,289</u>	<u>15,623,791</u>



HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

8. Plant and equipment

	<i>At December 31,</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
<i>Cost</i>		
Furniture, fixtures and office equipment	643,196	510,853
Leasehold improvement	146,622	137,761
Machinery and equipment	3,940,847	2,938,971
Motor vehicles	344,088	250,655
	<u>5,074,753</u>	<u>3,838,240</u>
<i>Accumulated depreciation</i>		
Furniture, fixtures and office equipment	211,342	92,092
Leasehold improvement	100,864	25,888
Machinery and equipment	834,206	475,767
Motor vehicles	138,959	89,833
	<u>1,285,371</u>	<u>683,580</u>
<i>Net</i>		
Furniture, fixtures and office equipment	431,854	418,761
Leasehold improvement	45,758	111,873
Machinery and equipment	3,106,641	2,463,204
Motor vehicles	205,129	160,822
	<u>3,789,382</u>	<u>3,154,660</u>

The components of depreciation charged are:

	<i>Years ended December 31,</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
Included in factory overheads	439,556	263,628
Included in operating expenses	120,517	80,213
	<u>560,073</u>	<u>343,841</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

9. Leasehold land

	<i>At December 31,</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
Cost	2,928,495	-
<i>Accumulated amortization</i>	<u>-</u>	<u>-</u>
<i>Net</i>	<u>2,928,495</u>	<u>-</u>
Analyzed for reporting purposes as:		
Current asset	58,570	-
Non-current asset	<u>2,869,925</u>	<u>-</u>
	<u>2,928,495</u>	<u>-</u>

As at December 31, 2007, the carrying amount of leasehold lands pledged as security for the Group's banking facilities amounted to \$2,928,495.

10. Intangible asset – Consumer battery license

	<i>At December 31,</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
Cost		
<i>Consumer battery license</i>	1,000,000	-
Accumulated amortization	<u>50,000</u>	<u>-</u>
<i>Net</i>	<u>950,000</u>	<u>-</u>

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

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

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

**10. Intangible asset (continued)**

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

The Consumer Battery License Agreement also requires the Company to pay an additional up-front royalty payment of \$1,000,000 by four annual installments and an annual royalty fee based on the gross sales of consumer batteries over the term of the Consumer Battery License Agreement. During 2007, the Company recorded a total of approximately \$327,026 as royalty expense, which was included in selling and distribution costs in the statement of operations. Accordingly, during the year ended December 31, 2007, the Company recorded a total up-front royalty payment obligation of \$1,000,000, which was included in other payables and accrued liabilities at December 31, 2007, with the related debit recorded as an intangible asset entitled consumer battery license agreement. At December 2007 and 2006, accrued royalty fees payable were \$1,327,026 and \$112,580, respectively (see Note 11).

The Company is amortizing the \$1,000,000 cost of the Consumer Battery License Agreement over a period of 20 years on the straight line basis. The accounting for the Consumer Battery License Agreement is based on the Company's estimate of the useful life of the underlying technology, which is based on the Company's assessment of existing battery technology, current trends in the battery business, potential developments and improvements, and the Company's current business plan. Amortization expense related to the Consumer Battery License Agreement included in selling and distribution costs during the years ended December 31, 2007, 2006 and 2005 were \$50,000, \$Nil and \$Nil, respectively.

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

Years ending December 31	\$
2008	50,000
2009	50,000
2010	50,000
2011	50,000
2012	50,000
2013 and thereafter	<u>700,000</u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

**11. Other payables and accrued liabilities**

	<i>At December 31,</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
Accrued expenses	765,760	622,010
Accrued staff welfare	90,316	111,749
Royalty fee	1,327,026	112,580
Sales deposits received	136,295	86,182
Other payables	<u>1,559</u>	<u>237,754</u>
	<u>2,320,956</u>	<u>1,170,275</u>

**12. Advance to related parties**

Advance to related parties for working capital are as follows:

	<i>At December 31,</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
Advance to shareholders	<u>-</u>	<u>634,161</u>

The above advances are interest-free, unsecured and have no fixed repayment terms.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

13. Bank borrowings

	<u>At December 31,</u>	
	<u>2007</u>	<u>2006</u>
	\$	\$
<b>Secured:</b>		
Repayable within one year		
Short term bank loans	2,454,838	896,964
Other trade related bank loans	12,955,704	5,053,662
	<u>15,410,542</u>	<u>5,950,626</u>

As of December 31, 2007 the Company's banking facilities are comprised of the following:

<u>Facilities granted</u>	<u>Granted</u>	<u>Amount Utilized</u>	<u>Unused</u>
	\$	\$	\$
Short term bank loans	4,170,000	2,454,838	1,715,162
Other trade related loan facilities including:			
- Accounts payable financing	14,000,000	7,928,535	6,071,465
- Accounts receivable financing	6,000,000	5,027,169	972,831
	<u>24,170,000</u>	<u>15,410,542</u>	<u>8,759,458</u>

As of December 31, 2007, the above bank borrowings were secured by the following:

- (a) charge over bank deposits of \$5,453,620 which is included in restricted cash on the Balance sheet;
- (b) corporate guarantee executed by a third party and Shenzhen Science and Technology Bureau;
- (c) personal guarantee executed by the directors of the Company;
- (d) the legal charge over leasehold land with carrying amount \$2,928,495 (see Note 9); and
- (e) other financial covenant.

The bank borrowings require one of the Company's subsidiaries to maintain a minimum net worth of \$10,910,330. The Company was in compliance with this requirement at December 31, 2007.

The interest rates of trade related bank loans were at bank's prime lending rate per annum with various maturity dates. The rates at December 31, 2007 ranged from 5.508% to 6.804%.

The interest rates of short term bank loans were at 6.804% per annum at December 31, 2007.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

**14. Pension plans**

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

Total pension cost was \$148,193, \$91,353 and \$Nil for the years ended December 31, 2007, 2006 and 2005, respectively.

**15. 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 2008 to 2011, with a options to renew the leases. All leases are on a fixed payment basis. None of the leases includes contingent rentals. Minimum future commitments under these agreements payable as of December 31, 2007 are as follows:

Year ending December 31	\$
2008	612,156
2009	780,136
2010	428,547
2011	<u>204,952</u>
	<u><u>2,025,791</u></u>

Rental expense for the years ended 2007, 2006 and 2005 were \$429,450, \$367,582 and \$262,819, respectively.

Capital commitments

The Company has the following capital commitments for the purchase of machinery as of December 31, 2007:

	\$
Contracted value	1,261,770
Less: deposit paid	<u>(1,115,123)</u>
Capital commitment	<u><u>146,647</u></u>

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

**15. Commitments and contingencies (continued)**

Contingencies

From time to time, the Company sells bills receivable (letters of credits) to banks. At the time of the sale, all rights and privileges of holding the receivables are transferred to the banks. The Company removes the asset from its books and records a corresponding expense for the amount of the discount. The Company remains contingently liable on the amount outstanding in the event the correspondent bank, the bill issuer defaults on the letters of credit which is remote.

	<i>At December 31,</i>	
	<i>2007</i>	<i>2006</i>
	\$	\$
Bills discounted	<u>106,378</u>	<u>1,323,442</u>

**16. Related party transactions**

Apart from the transactions as disclosed in Notes 12 and 13, the Company entered into the following transactions with its related party during the years ended December 31, 2007, 2006 and 2005:

	<i>Year ended December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$
Management fee paid to Canhold International Limited	<u>21,134</u>	<u>15,302</u>	<u>12,138</u>

Mr. Li Kai Man is the director of both the Company's subsidiary, HKHTC, and Canhold International Limited.

**17. Segment information**

The Company uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. Management, including the chief operating decision maker, reviews operating results solely by monthly revenue (but not by sub-product type or geographic area) and operating results of the Company and, as such, the Company has determined that the Company has one operating segment as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

17. Segment information (continued)

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

	<i>Years ended December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
<i>Net revenue</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Hong Kong and China	28,919,384	29,009,277	17,126,358
Asia	5,965,339	3,294,838	3,198,143
Europe	25,318,608	7,288,751	2,807,580
North America	12,851,807	4,511,914	1,877,949
South America	206,582	270,902	-
	<u>73,261,720</u>	<u>44,375,682</u>	<u>25,010,030</u>

	<i>At December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
<i>Accounts receivable</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Hong Kong and China	4,258,010	5,545,244	3,913,344
Asia	1,023,284	262,743	119,359
Europe	6,761,615	1,857,294	525,633
North America	3,863,266	461,889	212,315
	<u>15,906,175</u>	<u>8,127,170</u>	<u>4,770,651</u>

18. Dividends

The directors have declared and the Company has paid the following dividends in respect of the years ended December 31, 2007, 2006 and 2005:

	<i>At December 31,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
<i>Dividends</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Interim dividend declared and paid on September 30, 2007 of approximately \$ 0.045 per share:	<u>665,182</u>	<u>-</u>	<u>-</u>



HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Stated in U.S. Dollars)

19. Quarterly Results of Operations (unaudited)

The following table sets forth unaudited quarterly results of operations for the years ended December 31, 2007 and 2006. This unaudited quarterly information has been derived from the Company's unaudited financial statements and, in the Company's opinion, includes all adjustments, including normal recurring adjustments, necessary for a fair presentation of the information for the periods covered. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	Three Months Ended				Year Ended
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	December 31, 2007
	\$	\$	\$	\$	\$
Net revenue	11,539,505	20,466,844	19,879,829	21,375,542	73,261,720
Gross profit	1,056,415	2,847,274	2,610,045	2,956,738	9,470,472
Net income (loss)	<u>(502,663)</u>	<u>1,174,090</u>	<u>838,119</u>	<u>154,144</u>	<u>1,663,690</u>
Net income (loss) per common share					
Basic and diluted	<u>(0.03)</u>	<u>0.08</u>	<u>0.06</u>	<u>0.01</u>	<u>0.11</u>
Weighted average common shares outstanding					
Basic and diluted	<u>14,798,328</u>	<u>14,798,328</u>	<u>14,798,328</u>	<u>18,502,521</u>	<u>15,731,988</u>
	Three Months Ended				Year Ended
	March 31, 2006	June 30, 2006	September 30, 2006	December 31 2006	December 31, 2006
	\$	\$	\$	\$	\$
Net revenue	7,612,812	10,026,403	13,571,303	13,165,164	44,375,682
Gross profit	1,539,541	1,909,390	1,615,066	2,353,156	7,417,153
Net income	<u>808,562</u>	<u>930,832</u>	<u>392,134</u>	<u>900,799</u>	<u>3,032,327</u>
Net income per common share					
Basic and diluted	<u>0.05</u>	<u>0.06</u>	<u>0.03</u>	<u>0.06</u>	<u>0.20</u>
Weighted average common shares outstanding					
Basic and diluted	<u>14,798,328</u>	<u>14,798,328</u>	<u>14,798,328</u>	<u>14,798,328</u>	<u>14,798,328</u>

## 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).
10.1	Form of Subscription Agreement (incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
10.2*+	Amended Consumer Battery License Agreement, amended as of August 8, 2007, by and between Shenzhen Highpower Technology Co., Ltd and Ovonic Battery Company, Inc.
10.3	State-owned Land Use Rights Grant Contract No. 441302 - B - 112 dated as of May 23, 2007, by and between the Land and Resources Bureau of Huizhou City, Guangdong Province and Shenzhen Highpower Technology Co., Ltd. (translated to English) (incorporated by reference from Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
10.4	Credit Facility dated August 17, 2007 by and between DBS Bank (China) Limited Company Shenzhen Branch and Shenzhen Highpower Technology Co., Ltd. (translated to English). (incorporated by reference from Exhibit 10.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
10.4(a)	Letter of Undertaking executed by Dan Yu Pan, Wen Liang Li and Wen Wei Ma on behalf of Shenzhen Highpower Technology Company Limited to and in favor of DBS Bank (China) Limited Shenzhen Branch (translated to English) (incorporated by reference from Exhibit 10.4(a) to Amendment No. 1 to the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on January 28, 2008).
10.5	Commercial Acceptance Bill Discount Quotation Agreement dated as of June 18, 2007 by and between Shenzhen Development Bank Shenzhen Ai Guo Road Branch and Shenzhen Highpower Technology Co., Ltd. (translated to English) (incorporated by reference from Exhibit 10.6 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
10.5(a)	Guaranty Contract for Maximum Credit Line dated as of June 18, 2007 by and between Dang Yu Pan and Shenzhen Development Bank Shenzhen Ai Guo Road Branch (translated to English) (incorporated by reference from Exhibit 10.5(a) to Amendment No. 1 to the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on January 28, 2008).

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- 10.6 Facility Quotation Agreement dated as of September 18, 2007 by and between Shanghai Pudong Development Bank Shenzhen Long Hua Branch and Shenzhen Highpower Technology Co., Ltd. (translated to English) (incorporated by reference from Exhibit 10.7 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
- 10.6(a) Contract for Guarantee of Maximum Line of Credit dated as of September 18, 2007 by and between Dang Yu Pan and Shanghai Pudong Development Bank Shenzhen Branch (translated to English) (incorporated by reference from Exhibit 10.6(a) to Amendment No. 1 to the Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on January 28, 2008).
- 10.7+ Non-Undertaking Short-Term Revolving Financing Agreement dated as of October 11, 2007 by and between Citibank China Co., Ltd. ("Lender") and Shenzhen Highpower Technology Col, Ltd. and corresponding Letters of Guarantee between Lender and Dang Yu Pan, Wen Wei Ma and Wen Liang Li (translated to English).
- 16.1 Letter from AJ. Robbins, PC to the Securities and Exchange Commission dated November 2, 2007. (incorporated by reference to Exhibit 16.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
- 21.1 List of Subsidiaries (incorporated by reference from Exhibit 21.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
- 31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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+ Previously filed.

\* The Registrant has applied with the Secretary of the Securities and Exchange Commission for confidential treatment of certain information pursuant to Rule 24b-2 of the Securities Exchange Act of 1934. The Registrant has filed separately with its application a copy of the exhibit including all confidential portions, which may be made available for public inspection pending the Commission's review of the application in accordance with Rule 24b-2.

\*\* 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.

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## CERTIFICATION

I, Dang Yu Pan, certify that:

1. I have reviewed this report on Form 10-K/A of Hong King Highpower Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal 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 small business issuer's internal control over the 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.

/s/ Dang Yu Pan

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Dang Yu Pan  
Chief Executive Officer  
June 27, 2008

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## CERTIFICATION

1. I have reviewed this report on Form 10-K/A of Hong King Highpower Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal 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 small business issuer's internal control over the 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.

/s/ Yu Zhi Qiu

Yu Zhi Qiu

Chief Financial Officer

June 27, 2008

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CERTIFICATION 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 report of Hong Kong Highpower Technology, Inc. (the "Company") on Form 10-K/A for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates 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

Yu Dang Yu Pan  
Chief Executive Officer  
June 27, 2008

/s/ Yu Zhi Qiu

Yu Zhi Qiu  
Chief Financial Officer  
June 27, 2008

A signed original of this written statement required by Section 906 has been provided to Hong Kong Highpower Technology, Inc. and will be retained by Hong Kong Highpower Technology, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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