

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

OR

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

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

COMMISSION FILE NO. 000-52103

**HIGHPOWER INTERNATIONAL, INC.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**20-4062622**

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

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

*(Address of principal executive offices)*

**518111**

*(Zip Code)*

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

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

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

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

None.

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

Yes  No

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

Yes  No

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

The aggregate market value of the registrant's issued and outstanding shares of common stock held by non-affiliates of the registrant as of June 30, 2012 (based on the price at which the registrant's common stock was last sold on such date) was approximately \$7.7 million.

There were 13,582,106 shares outstanding of the registrant's common stock, par value \$0.0001 per share, as of March 21, 2013. The registrant's common stock is listed on the Nasdaq Global Market under the stock symbol "HPJ."

Documents Incorporated by Reference: None.

---

## TABLE OF CONTENTS

### HIGHPOWER INTERNATIONAL, INC. TABLE OF CONTENTS TO ANNUAL REPORT ON FORM 10-K For the Fiscal Year Ended December 31, 2012

PART I		
ITEM 1.	BUSINESS	1
ITEM 1A.	RISK FACTORS	13
ITEM 1B.	UNRESOLVED STAFF COMMENTS	33
ITEM 2.	PROPERTIES	33
ITEM 3.	LEGAL PROCEEDINGS	35
ITEM 4.	MINE SAFETY DISCLOSURES	35
PART II		36
ITEM 5.	MARKET FOR REGISTRANT’S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	36
ITEM 6.	SELECTED CONSOLIDATED FINANCIAL DATA	37
ITEM 7.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	37
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	44
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	45
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	45
ITEM 9A.	CONTROLS AND PROCEDURES	45
ITEM 9B.	OTHER INFORMATION	46
PART III		48
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE	48
ITEM 11.	EXECUTIVE COMPENSATION	51
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	53
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	54
ITEM 14.	PRINCIPAL ACCOUNTING FEES AND SERVICES	54
PART IV		56
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	56
SIGNATURES		56
EXHIBIT INDEX		57
INDEX TO FINANCIAL STATEMENTS		F-1

## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

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

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

- The current economic downturn adversely affecting demand for our products;
- The current safety issues of Lithium-ion batteries;
- Our reliance on our major customers for a large portion of our net sales;
- Our reliance on a limited number of suppliers for nickel, our principal raw material;
- Our ability to develop and market new products;
- Our ability to establish and maintain a strong brand;
- Protection of our intellectual property rights;
- The market acceptance of our products, including our line of Lithium-ion batteries;
- The implementation of new projects;
- Our ability to successfully manufacture and deliver our products in the time frame and amounts expected;
- Exposure to product liability, safety, and defect claims;
- Exposure to currency exchange risks during our product export;
- Rising labor costs, volatile metal prices, and inflation;
- Changes in the laws of the P.R.C. that affect our operations;
- Our ability to obtain and maintain all necessary government certifications and/or licenses to conduct our business;
- Development of an active trading market for our securities;
- The cost of complying with current and future governmental regulations and the impact of any changes in the regulations on our operations; and

- The other factors referenced in this Form 10-K, including, without limitation, under the sections entitled “Risk Factors,” “Financial Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business.”

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

## **PART I**

### **ITEM 1. BUSINESS**

With respect to this discussion, the terms, “the Company” “Highpower” “we,” “us,” and “our” refer to Highpower International, Inc., and its 100%-owned subsidiary Hong Kong Highpower Technology Company Limited (“HKHTC”), HKHTC’s wholly-owned subsidiaries Shenzhen Highpower Technology Company Limited (“SZ Highpower”), Highpower Energy Technology (Hui Zhou) Company Limited (“HZ Highpower”), Icon Energy System Company Limited (“ICON”), SZ Highpower’s wholly owned subsidiary Huizhou Highpower Technology Company Limited (“HZ HTC”) and its 60%-owned subsidiary Ganzhou Highpower Technology Company Limited (“GZ Highpower”) and SZ Highpower’s and HKHTC’s jointly owned subsidiary, Springpower Technology (Shenzhen) Company Limited (“SZ Springpower”). Highpower and its subsidiaries are collectively referred to as the “Company,” unless the context indicates otherwise.

#### **Corporate Information**

Highpower International, Inc. was incorporated in the state of Delaware on January 3, 2006. HKHTC was incorporated in Hong Kong on July 4, 2003 and organized principally to engage in the manufacturing and trading of nickel metal hydride rechargeable batteries. All other subsidiaries were incorporated in the People’s Republic of China (“P.R.C.”).

On February 8, 2012, GZ Highpower, which was incorporated on September 21, 2010, increased its registered capital to RMB30,000,000 (\$4,762,586) from RMB2,000,000 (\$293,574). SZ Highpower holds 60% of the equity interest of GZ Highpower, while the four founding management members of GZ Highpower hold the remaining 40%. As of December 31, 2012, the paid-in capital of GZ Highpower was approximately RMB15,000,000 (\$2,381,293).

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

On September 14, 2012, SZ Springpower increased its registered capital from \$1,000,000 to \$3,330,000. SZ Highpower paid the increased capital. As of December 31, 2012, SZ Highpower holds 69.97% of the equity interest of SZ Springpower, and HKHTC holds the remaining 30.03%.

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

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

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

## Industry

### General

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

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

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

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

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

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

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

Lithium batteries also have several limitations:

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

### **China**

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

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

### **Competitive Strengths**

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

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

Our senior management team has extensive business and industry experience. Our Chairman and Chief Executive Officer, Mr. Dang Yu Pan, has over 16 years of experience in China's battery industry. Our Chief Technology Officer, Mr. Wen Liang Li, has over 22 years of research experience in advanced battery technologies and products. Additionally, other members of our senior management team have significant experience with respect to other key aspects of our operations, including product design, manufacturing, and sales and marketing.



### ***Market position***

Since the Company's inception, it has primarily focused on the research, development and manufacture of Ni-MH battery cells. We have developed significant expertise in Ni-MH battery technology and large-scale manufacturing that enables us to improve the quality of our products, reduce costs, and keep pace with evolving industry standards. Our Ni-MH rechargeable batteries have been developed to respond to a number of specific market requirements such as recyclability, high power, high energy density, long life, low cost and other important characteristics for consumer and industrial applications. They are suitable for almost all applications where high currents and deep discharges are required. Our subsidiary, SZ Springpower, is a company that specializes in the research, manufacturing and marketing of lithium rechargeable batteries and started lithium battery manufacturing operations in 2008. Our lithium battery business has been growing rapidly and we expect it will continue to grow as we gain more industry knowledge and acquire more customers. It has become a more and more important segment of our operations, with net sales of lithium batteries accounting for 33.7% of net sales in 2012, up from 20.5% of our net sales in 2011.

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

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

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

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

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

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

### ***Our Strategy***

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

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

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

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

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

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

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

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

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

### **Products**

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

In 2009, we completed the construction and build-out of several production lines for the development and manufacturing of a range of lithium rechargeable batteries and products. We produce Li-ion batteries and Li-polymer batteries with hundreds of different models and specifications. Currently, we produce an average of 1,800,000 lithium battery units per month.

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

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

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

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

	Year Ended December 31,	
	2012	2011
Ni-MH Batteries	63.8%	63.7%
Lithium Batteries	33.7%	20.5%
Materials	2.5%	15.8%
	100.0%	100.0%

### **Supply of Raw Materials**

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

Currently, we purchase raw materials, consisted primarily of metal materials including nickel oxide, nickel foam, metal hydride alloy and other battery components, such as membranes, from suppliers located in China and Japan. For lithium batteries, we purchase raw materials consisted primarily of LiCoO<sub>2</sub>, graphite and electrolyte. We believe that the raw materials and components used in manufacturing rechargeable batteries are available from enough sources to be able to satisfy our manufacturing needs; however, some of our materials relating to nickel and lithium are available from a limited number of suppliers. Our top three suppliers of nickel account for 41% of our nickel supply. Our top three suppliers of lithium account for approximately 40% of our lithium supply. Presently, our relationships with suppliers are generally good and we expect that our suppliers will be able to meet the anticipated demand for our products in the future. Our top suppliers include Jinchuan Group, Baotou Santoku Battery Materials Co. Ltd., and Tianjin B&M Science & Technology, Ltd.

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

### **Quality Control**

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

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

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

### **Manufacturing**

The manufacture of rechargeable batteries requires coordinated use of machinery and raw materials at various stages of manufacturing. We have a large-scale active production base of 51,932 square meters (not including our new 126,605 square meter facility in Huizhou to which machinery is currently being deployed), a dedicated design, sales and marketing team, and approximately 3,200 company-trained employees. We use automated machinery to process key aspects of the manufacturing process to ensure high uniformity and precision, while leaving the non-key aspects of the manufacturing process to manual labor. We intend to further improve our automated production lines and strive to continue investing in manufacturing infrastructures to further increase our manufacturing capacity, which help us control the unit cost of products.

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

In October 2008, we commenced construction of our new manufacturing factory in Huizhou, Guangdong Province, P.R.C., which construction was completed in 2012. The new factory will house a substantial part of the lithium battery production for the Company and be equipped with more automated production lines. The new factory's production capacity will be approximately two to three times that of our current lithium battery production facility in Shenzhen. We expect that the initial phase of machinery deployment will be completed in the second quarter of 2013 and that we will begin initial production in the factory in the third quarter of 2013. We will also continue to operate in the old rented factories located in Shenzhen upon completion of the new factory.

In July 2012, we commenced construction of our materials recycling factory in Ganzhou, Jiangxi Province, P.R.C. We expect that the construction of the factory will be completed in the second quarter of 2013 and that we will begin initial production in the factory in the third quarter of 2013.

Our Ni-MH facility currently produces approximately 10 million to 14 million battery units per month and our lithium facility produces approximately 1.5 million to 1.8 million units per month. We are planning for moderate manufacturing capacity growth of approximately 30-40% for the lithium battery segment in the next 12 months.

### **Major Customers**

During the years ended December 31, 2012 and 2011, approximately 31.7% and 37.9% of our net sales were from our five largest customers, respectively. The percentages of net sales disclosed for each of our major customers includes sales to groups of customers under common control or that could be deemed affiliates of such major customers. During the years ended December 31, 2012 and 2011, one major customer, Energizer Battery Manufacturing, Inc., accounted for 14.8% and 19.7%, respectively, of our net sales. No other customer accounted for more than 10% of net sales during 2012 and 2011. As of December 31, 2012, we had two major customers who represented 16% and 5.5% of our accounts receivable as of that date. As of December 31, 2011, we had two major customers who represented 19.7% and 6.3%, respectively, of our accounts receivable as of that date.

### **Sales and Marketing**

We have a broad sales network of approximately 111 sales and marketing staff in China and have one branch office in Hong Kong. Our sales staff in each of our offices targets key customers by arranging in-person sales presentations and providing after-sales services. Our sales staff works closely with our customers so that we can better address their needs and improve the quality and features of our products. We offer different price incentives to encourage large-volume and long-term customers.

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

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

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

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
China (including Hong Kong)	49.2%	51.9%
Europe	23.8%	27.3%
North America	13.0%	13.1%
Asia	13.0%	7.3%
South America, Africa and Others	1.0%	0.4%
Total	<u>100.0%</u>	<u>100.0%</u>

While the largest portion of our sales are made to customers in China and Hong Kong, our battery products are integrated in various devices and end-user products and distributed worldwide, with approximately 49.2% of our products distributed to China and Hong Kong, 23.8% to Europe, 13.0% to the United States, and 14.0% to other markets in 2012.

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

### **Research and Development**

To enhance our product quality, reduce cost, and keep pace with technological advances and evolving market trends, we have established an advanced research and development center. Our research and development center is not only focused on enhancing our Ni-MH and Lithium-based technologies by developing new products and improving the performance of our current products, but also seeks to develop alternative technologies. Our research and development center is currently staffed with over 126 research and development technicians who overlook our techniques department, product development department, material analysis lab, and performance testing lab. These departments work together to research new material and techniques, test battery performance, inspect products and to test performance of machines used in the manufacturing process.

For the years ended December 31, 2012 and 2011, we expended \$4,611,054 and \$3,239,436, respectively, in research and development.

#### *Strategic Partnership with Freudenberg Nonwovens*

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

### **Competition**

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

## **Seasonality**

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

## **Intellectual Property**

We rely on a combination of patent and trade secret protection and other unpatented proprietary information to protect our intellectual property rights and to maintain and enhance our competitiveness in the battery industry. We currently hold 82 patents in China and have 68 patent applications pending in China. We also have two registered trademarks in China, which include "HFR" and its Chinese equivalent.

SZ Highpower entered into a license agreement with Ovonic Battery Company, Inc. ("Ovonic"), which was later renewed, under which Ovonic granted SZ Highpower (1) a royalty-bearing, non-exclusive license to use certain patents owned by Ovonic to manufacture Ni-MH batteries for portable consumer applications ("Consumer Batteries") in the P.R.C. and (2) a royalty-bearing, non-exclusive worldwide license to use certain patents owned by Ovonic to use, sell and distribute Consumer Batteries. The renewed agreement will remain in effect until the licensed patents under the agreement expire in 2013. Pursuant to the renewed agreement, SZ Highpower paid a license fee of approximately \$0.2 million to Ovonic in 2012.

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

## **P.R.C. Government Regulations**

### ***Business License***

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

### ***Environmental Regulations***

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

We constructed our manufacturing facilities with the P.R.C.'s environmental laws and requirements in mind. We currently outsource the disposal of solid waste to a third party-contractor. In 2012, we renewed our environmental permit, which expired in December 2012, from the Shenzhen Environment Protection Bureau Longgang Bureau covering our manufacturing operations and providing for an annual output limit of Ni-MH rechargeable batteries. Our new permit will expire on December 30, 2013. If we fail to comply with the provisions of the renewed permit, we could be subject to fines, criminal charges or other sanctions by regulators, including the suspension or termination of our manufacturing operations.

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

During the year ended December 31, 2012, we expended approximately \$13,841 related to our compliance with environmental regulations.

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

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

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

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

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

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

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

P.R.C. law defines patent infringement as the exploitation of a patent without the authorization of the patent holder. A patent holder who believes his patent is being infringed may file a civil suit or file a complaint with a P.R.C. local Intellectual Property Administrative Authority, which may order the infringer to stop the infringing acts. Preliminary injunction may be issued by the People's Court upon the patentee's or the interested parties' request before instituting any legal proceedings or during the proceedings. Evidence preservation and property preservation measures are also available both before and during the litigation. Damages in the case of patent infringement is calculated as either the loss suffered by the patent holder arising from the infringement or the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be reasonably determined in an amount ranging from one to more times of the license fee under a contractual license. The infringing party may be also fined by Administration of Patent Management in an amount of up to three times the unlawful income earned by such infringing party. If there is no unlawful income so earned, the infringing party may be fined in an amount of up to RMB500,000, or approximately \$80,240.

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

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

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

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

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

### ***Employment Laws***

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

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



## ***Tax***

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

## ***Foreign Currency Exchange***

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

## ***Dividend Distributions***

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

## ***Foreign Ownership of P.R.C. Operating Subsidiaries***

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

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

## ***Employees***

On December 31, 2012, we had approximately 3,200 employees, all of whom were employed full-time. There are no collective bargaining contracts covering any of our employees. We have not experienced any work stoppages and consider our relations with employees to be good.

## **ITEM 1A: RISK FACTORS**

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

### **RISKS RELATED TO OUR OPERATIONS**

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

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

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

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

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

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

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

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

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

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

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

We have historically depended on a limited number of customers for a significant portion of our net sales. Our top five customers accounted for approximately 31.7% and 37.9% of our net sales for the years ended December 31, 2012 and 2011, respectively. One customer, Energizer Battery Manufacturing, Inc., accounted for 14.8% and 19.7% of our net sales for the years ended December 31, 2012 and 2011, respectively. We anticipate that a limited number of customers will continue to contribute to a significant portion of our net sales in the future. Maintaining the relationships with these significant customers is vital to the expansion and success of our business, as the loss of a major customer could expose us to risk of substantial losses. Our sales and revenue could decline and our results of operations could be materially adversely affected if one or more of these significant customers stops or reduces its purchasing of our products, or if we fail to expand our customer base for our products.

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

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

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

A substantial portion of our working capital consists of accounts receivable from customers. One customer represented an aggregate of 16% of our accounts receivable as of December 31, 2012. If customers responsible for a significant amount of accounts receivable were to become insolvent or otherwise unable to pay for products and services, or to make payments in a timely manner, our business, results of operations or financial condition could be materially adversely affected. An economic or industry downturn could materially adversely affect the servicing of these accounts receivable, which could result in longer payment cycles, increased collection costs and defaults in excess of management's expectations. A significant deterioration in our ability to collect on accounts receivable could also impact the cost or availability of financing available to us.

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

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

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

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

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

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

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

Our principal raw material is nickel, which is available from a limited number of suppliers in China. The price of nickel was volatile during 2011 and 2012 and could be volatile again. The price of nickel decreased 32% from January 2011 to December 2011 and 23% from January 2012 to December 2012. The prices of nickel and other raw materials used to make our batteries increase and decrease due to factors beyond our control, including general economic conditions, domestic and worldwide demand, labor costs or problems, competition, import duties, tariffs, energy costs, currency exchange rates and those other factors described under "Certain disruptions in supply of and changes in the competitive environment for raw materials integral to our products may adversely affect our profitability." In an environment of increasing prices for nickel and other raw materials, competitive conditions may impact how much of the price increases we can pass on to our customers and to the extent we are unable to pass on future price increases in our raw materials to our customers, our financial results could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We had capital expenditures of approximately \$13.0 million and \$7.7 million in the years ended December 31, 2012 and 2011, respectively. We may incur significant additional capital expenditures as a result of our expansion of our operations into our new production factory, as well as unanticipated events, regulatory changes and other events that impact our business. If we are unable or fail to adequately maintain our manufacturing capacity or quality control processes or adequately expand our production capabilities, we could lose customers and there could be a material adverse impact on our market share and our ability to generate revenue.

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

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

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

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

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

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

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

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

To protect the reputation of our products, we have sought to file or register intellectual property, as appropriate, in the P.R.C. where we have our primary business presence. As of December 31, 2012, we have registered two trademarks as used on our battery products, one in English and the other in its Chinese equivalent. Our products are currently sold under these trademarks in the P.R.C., and we plan to expand our products to other international markets. There is no assurance that there will not be any infringement of our brand name or other registered trademarks or counterfeiting of our products in the future, in China or elsewhere. Should any such infringement and/or counterfeiting occur, our reputation and business may be adversely affected. We may also incur significant expenses and substantial amounts of time and effort to enforce our trademark rights in the future. Such diversion of our resources may adversely affect our existing business and future expansion plans.

As of December 31, 2012, we held 82 Chinese patents and had 68 Chinese patent applications pending. Additionally, we have licensed patented technology from Ovonic Battery Company, Inc. related to the manufacture of Ni-MH batteries. We believe that obtaining patents and enforcing other proprietary protections for our technologies and products have been and will continue to be very important in enabling us to compete effectively. However, there can be no assurance that our pending patent applications will issue, or that we will be able to obtain any new patents, in China or elsewhere, or that our or our licensors' patents and proprietary rights will not be challenged or circumvented, or that these patents will provide us with any meaningful competitive advantages. Furthermore, there can be no assurance that others will not independently develop similar products or will not design around any patents that have been or may be issued to us or our licensors. Failure to obtain patents in certain foreign countries may materially adversely affect our ability to compete effectively in those international markets. If a sufficiently broad patent were to be issued from a competing application in China or elsewhere, it could have a material adverse effect upon our intellectual property position in that particular market.

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

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

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

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

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

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

Any significant growth in the market for our products or our entry into new markets may require an expansion of our employee base for managerial, operational, financial, and other purposes. As of December 31, 2012, we had approximately 3,216 full-time employees. During any growth, we may face problems related to our operational and financial systems and controls, including quality control and delivery and service capacities. We would also need to continue to expand, train and manage our employee base. Continued future growth will impose significant added responsibilities upon the members of management to identify, recruit, maintain, integrate, and motivate new employees.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to various environmental laws and regulations in China that require us to obtain environmental permits for our battery manufacturing operations. Our current environmental permit from the Shenzhen Environment Protection Bureau Longgang Sub-bureau (the "Bureau") covering our manufacturing operations expires on December 30, 2013. Historically, under a previous permit which expired in September 2007, we substantially exceeded the approved annual output limit of Ni-MH rechargeable batteries set forth in the permit. Although we do not currently exceed the approved annual output limits under the new permit, we cannot guarantee that this will continue to be the case. Additionally, our current permit does not cover one of our existing premises at our manufacturing facility. If we fail to comply with the provisions of our permit, we could be subject to fines, criminal charges or other sanctions by regulators, including the suspension or termination of our manufacturing operations.

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

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

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

- Regulatory penalties, fines and legal liabilities;
- Suspension of production;
- Alteration of our fabrication, assembly and test processes; and
- Curtailment of our operations or sales.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The value of RMB is subject to changes in China's governmental policies and to international economic and political developments. In January 1994, the P.R.C. government implemented a unitary managed floating rate system. Under this system, the People's Bank of China, or PBOC, began publishing a daily Base Exchange Rate with reference primarily to the supply and demand of RMB against the U.S. Dollar and other foreign currencies in the market during the previous day. Authorized banks and financial institutions are allowed to quote buy and sell rates for RMB within a specified band around the central bank's daily exchange rate. On July 21, 2005, PBOC announced an adjustment of the exchange rate of the U.S. Dollar to RMB and modified the system by which the exchange rates are determined, which has resulted in an appreciation of the RMB against the U.S. Dollar. During the year ended December 31, 2012, the exchange rate of the RMB to the U.S. Dollar increased approximately 1.1% from the level at the end of December 31, 2011. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the P.R.C. government to adopt an even more flexible currency policy, which could result in further fluctuations of the exchange rate of the U.S. Dollar against the RMB, including future devaluations. Because most of our net sales are made in U.S. Dollars and most of our expenses are paid in RMB, any future devaluation of the U.S. Dollar against the RMB could negatively impact our results of operations.

**Inflation in the P.R.C. could negatively affect our profitability and growth.**

While the P.R.C. economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. According to the National Bureau of Statistics of China, China's Average consumer Price Index was 2.7% in 2012. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on our profitability.

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

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

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

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

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



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

On April 6, 2007, SAFE issued the “Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Ownership Plan or Stock Option Plan of An Overseas Listed Company, also known as “Circular 78.” It is not clear whether Circular 78 covers all forms of equity compensation plans or only those which provide for the granting of stock options. For any plans which are so covered and are adopted by a non-P.R.C. listed company after April 6, 2007, Circular 78 requires all participants who are P.R.C. citizens to register with and obtain approvals from SAFE prior to their participation in the plan. In addition, Circular 78 also requires P.R.C. citizens to register with SAFE and make the necessary applications and filings if they participated in an overseas listed company’s covered equity compensation plan prior to April 6, 2007. In 2008, we adopted the Highpower International, Inc. 2008 Omnibus Incentive Plan (the “Plan”) under which we make option grants and other equity awards to our officers, directors and other eligible participants under the plan. Circular 78 may require our officers and directors who receive option grants and are P.R.C. citizens to register with SAFE. We believe that the registration and approval requirements contemplated in Circular 78 will be burdensome and time consuming. If it is determined that the Plan is subject to Circular 78, failure to comply with such provisions may subject us and participants of the Plan who are P.R.C. citizens to fines and legal sanctions and prevent us from being able to grant equity compensation to our P.R.C. employees. In that case, our ability to compensate our employees and directors through equity compensation would be hindered and our business operations may be adversely affected. We have granted options to various employees and officers located in the P.R.C., including a grant of options to one executive in the P.R.C. in March 2012. We have complied with all of the relevant regulations imposed upon us related to such grants and assisted our grantees with their compliance with their individual registration requirements.

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

Our operating subsidiary, SZ Highpower, enjoyed preferential tax concessions in the P.R.C., which were only granted to high-technology enterprises operating in the Shenzhen Special Economic Zone. From 2005 to 2007, SZ Highpower enjoyed a preferential income tax rate of 7.5% due to its status as a new business and high-tech enterprise status from the Shenzhen level. That status expired on December 31, 2007. In 2008, SZ Highpower received the National High-technology Enterprise status, and then enjoyed a preferential tax rate of 15%. This status expired on December 31, 2010. In 2011, we renewed our status, which expires on December 31, 2013. Our subsidiary, SZ Springpower, is currently in the 25% tax bracket. It will be eligible to apply for the hi-tech enterprise status in order to receive a preferential tax rate of 15% when it reaches profitability, which is expected to occur in 2013. The expiration of the preferential tax treatment will increase our tax liabilities and reduce our profitability. Additionally, the P.R.C. Enterprise Income Tax Law (the “EIT Law”) was enacted on March 16, 2007. Under the EIT Law, which became effective on January 1, 2008, China adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and canceled several tax incentives enjoyed by foreign-invested enterprises. However, for foreign-invested enterprises established before the promulgation of the EIT Law, a five-year transition period is provided during which the tax rate gradually increased starting in 2008 and will be equal to the new 25% tax rate at the end of the transition period. We believe that our profitability will be negatively affected in the near future as a result of the new EIT Law. Any future increase in the enterprise income tax rate applicable to us or other adverse tax treatments could increase our tax liabilities and reduce net income.

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

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

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

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

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

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

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

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

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

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

**A downturn in the economy of the P.R.C. may slow our growth and profitability.**

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

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

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

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

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

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

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

### **We could be liable for damages for defects in our products pursuant to the Tort Liability Law of the P.R.C.**

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

### **RISKS RELATED TO OUR CAPITAL STRUCTURE**

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

Since our initial public offering and listing of our common stock in October 2007, the price at which our common stock had traded has been highly volatile, with the lowest and highest sales price of \$0.93 and \$9.82, respectively. Investors might not be able to resell the shares of our common stock at or above the price they have paid. The stock market has experienced extreme volatility that often has been unrelated to the performance of its listed companies. Moreover, only a limited number of our shares are traded each day, which could increase the volatility of the price of our stock. These market fluctuations might cause our stock price to fall regardless of our performance. The market price of our common stock might fluctuate significantly in response to many factors, some of which are beyond our control, including the following:

- Actual or anticipated fluctuations in our annual and quarterly results of operations;
- Changes in securities analysts' expectations;
- Variations in our operating results, which could cause us to fail to meet analysts' or investors' expectations;
- Announcements by our competitors or us of significant new products, contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Conditions and trends in our industry;
- General market, economic, industry and political conditions;
- Changes in market values of comparable companies;
- Additions or departures of key personnel;
- Stock market price and volume fluctuations attributable to inconsistent trading volume levels; and
- Future sales of equity or debt securities, including sales which dilute existing investors.

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

Three of our stockholders beneficially own or control approximately 47% of our outstanding shares. If these stockholders were to act as a group, they would have a controlling influence in determining the outcome of any corporate transaction or other matters submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors, and other significant corporate actions. Such stockholders may also have the power to prevent or cause a change in control. In addition, without the consent of these three stockholders, we could be prevented from entering into transactions that could be beneficial to us. The interests of these three stockholders may differ from the interests of our other stockholders.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and related SEC regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the public markets and public reporting. For example, on January 30, 2009, the SEC adopted rules requiring companies to provide their financial statements in interactive data format using the Extensible Business Reporting Language, or XBRL. The Company had to comply with these rules since June 15, 2011. Our management team has to invest significant management time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

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

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

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

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

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

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

Under current accounting rules, we would be required to recognize share-based compensation as compensation expense in our statement of operations, based on the fair value of equity awards on the date of the grant, and recognize the compensation expense over the period in which the recipient is required to provide service in exchange for the equity award. We made grants of equity awards in 2011 and 2012, and accordingly our results of operations for the years ended December 31, 2012 and 2011 contain share-based compensation charges. If we grant equity compensation to attract and retain key personnel, the expenses associated with share-based compensation may adversely affect our net income. However, if we do not grant equity compensation, we may not be able to attract and retain key personnel or be forced to expend cash or other compensation instead. Furthermore, the issuance of equity awards would dilute the stockholders' ownership interests in our company.

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

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

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

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

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable to smaller reporting companies.

**ITEM 2. PROPERTIES**

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

The Company currently has three active manufacturing operations located in mainland China at Luoshan Industrial Zone, Pinghu, Longgang, Shenzhen, Guangdong, 518111, China; Building A, Chaoshun Industrial Zone, Renming Road, Danhu Community, Guang Lan Street, Bao An District, Shenzhen, Guangdong, 518111, China; and Guanlan Hi-tech Park, South Road around Guanlan, Guanglan Street, Baoan District, Shenzhen, Guangdong, 518111, China. Our active facilities cover approximately 51,932 square meters (not including our new 126,605 square meter facility in Huizhou to which machinery is currently being deployed), and consist of manufacturing plants, dormitories and research and development facilities. We lease manufacturing facilities from various landlords under a total of thirteen leases with varying terms ranging, which are renewed upon expiration. All leases have been fully prepaid until the expiration date. The table below lists the locations, approximate square meters, principal use and lease expiration dates of the facilities used in our manufacturing operations as of December 31, 2012.

<b>Location</b>	<b>Area (square meters)</b>	<b>Principal Use</b>	<b>Lease expiration date</b>
Building A1, Luo Shan Industrial Zone, Shanxia Community, Pinghu Street, Longgang District, Shenzhen, Guangdong	3,300	Industry & Residence	December 31, 2016
Building A2, Luo Shan Industrial Zone, Shanxia Community, Pinghu Street, Longgang District, Shenzhen, Guangdong	4,922	Industry & Residence	December 31, 2016
Building A1&A2&A3&A4&A7, Luo Shan Industrial Zone, Shanxia Community, Pinghu Street, Longgang District, Shenzhen, Guangdong	12,608	Staff Dormitory	December 31, 2016
Building A3&A4&A7, Luo Shan Industrial Zone, Shanxia Community, Pinghu Street, Longgang District, Shenzhen, Guangdong	14,702	Industry	December 31, 2016
Building A, Chaoshun Industrial Zone, Renming Road, Danhu Community, Guanglan Street, Baoan District, Shenzhen, Guangdong	9,460	Industry	September 15, 2013
Building A, Chaoshun Industrial Zone, Renming Road, Danhu Community, Guanglan Street, Baoan District, Shenzhen, Guangdong	4,140	Staff Dormitory	September 15, 2013
Guanlan Hi-tech Park, South Road around Guanlan, Guanglan Street, Baoan District, Shenzhen, Guangdong	2,800	Industry & Dormitory	June 30, 2015

In China, only the P.R.C. government and peasant collectives may own land. In February 2007, the Company acquired approximately 126,605 square meters of land equity in Industry Development Zone, New Lake, Maan Town, Huicheng District, Huizhou, Guangdong, China for a total of RMB 21 million (\$3,446,001) under land use right grant from the Huizhou State-Owned Land Resource Bureau that gave us the right to use the land for 50 years and an agreement with the government of Maan Town. In the event we wish to continue to use the land after the 50-year period, we must apply for an extension at least one year prior to the land grant's expiration. The Company began construction of its new manufacturing facility on this site in October 2008 and the new facility was completed in 2012. The Company plans to use the new location for its lithium battery production.

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

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

Our Ni-MH manufacturing capacity is approximately 14 million units per month. Our run rate is approximately 12 million units per month. Our lithium battery production is almost at 100% capacity now, with manufacturing capacity of approximately 1.8 million units per month. We are also planning for moderate manufacturing capacity growth of approximately 30-40% for the lithium battery segment in the next 12 months. We planned to expand our production of lithium battery units in our Huizhou facility. The source of funding for such expansion will be our operational cash and bank credit facilities, as we still have unused credit totaling approximately \$34.7 million.

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

On August 20, 2007, a lawsuit was filed against SZ Highpower and various other defendants by Energizer, S.A. in the United States District Court for the Southern District of New York. The lawsuit arose out of a fire that occurred on a cargo vessel carrying batteries sold to Energizer by SZ Highpower that resulted in damages to various third parties. Energizer alleges that it is entitled to indemnification from SZ Highpower for any damages or losses that it becomes liable to pay to third parties as a result of the fire. Energizer seeks indemnity and/or contribution from SZ Highpower for such sums, together with expenses, including attorneys' fees and costs. Our insurance company has provided us with counsel in this case. In Jun 2012, all parties involved in the case reached an agreement through mediation to collectively contribute to the damages occurred during the fire incident. The lawsuit was dismissed. The Company contributed \$1.5 million in June 2012 to settle. Energizer continues to be one of our largest customers.

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

Not applicable.



## PART II

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

#### Market Information

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

On March 21, 2013 the closing sales price for our common stock on the Nasdaq Global Market was \$1.14 per share.

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

	Highest	Lowest
<b>Year ended December 31, 2012</b>		
Fourth Quarter	\$ 1.08	\$ 0.92
Third Quarter	\$ 1.20	\$ 0.96
Second Quarter	\$ 1.20	\$ 0.97
First Quarter	\$ 1.25	\$ 1.00
<b>Year ended December 31, 2011</b>		
Fourth Quarter	\$ 2.00	\$ 0.93
Third Quarter	\$ 2.55	\$ 1.10
Second Quarter	\$ 3.10	\$ 1.24
First Quarter	\$ 3.73	\$ 2.81

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

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

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

## **Stockholders**

As of March 21, 2013, we had 22 stockholders of record. This number does not include an indeterminate number of stockholders whose shares are held by brokers in street name.

## **Dividends**

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

We did not pay cash dividends in the years ended December 31, 2012 or 2011.

## **Transfer Agent**

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

## **Equity Compensation Plan Information**

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

## **Additional Information**

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

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

Not applicable for a smaller reporting company.

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

### **Forward-Looking Statements**

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

## Overview

Highpower International was incorporated in the state of Delaware on January 3, 2006 and originally organized as a “blank check” shell company to investigate and acquire a target company or business seeking the perceived advantages of being a publicly held corporation. On November 2, 2007, we closed a share exchange transaction, pursuant to which we (i) became the 100% parent of HKHTC and its wholly-owned subsidiary, SZ Highpower, (ii) assumed the operations of HKHTC and its subsidiary and (iii) changed our name to Hong Kong Highpower Technology, Inc. We subsequently changed our name to Highpower International, Inc. in October 2010.

HKHTC was incorporated in Hong Kong in 2003 under the Companies Ordinance of Hong Kong. HKHTC formed HZ Highpower and SZ Springpower in 2008. HZ Highpower has not commenced operations as of March 25, 2013. In February 2011, HKHTC formed another wholly-owned subsidiary, Icon Energy System Company Limited, a company organized under the laws of the P.R.C., which commenced operations in July 2011.

SZ Highpower was founded in 2001 in the P.R.C. SZ Highpower formed GZ Highpower in September 2010. On February 8, 2012, GZ Highpower increased its paid-in capital from RMB2,000,000 (\$293,574) to RMB15,000,000 (\$2,381,293). SZ Highpower holds 60% of the equity interest of GZ Highpower, and the four founding management members of GZ Highpower hold the remaining 40%. SZ Highpower formed HZ HTC in March 2012, which engages in the manufacture of batteries.

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

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

## Critical Accounting Policies, Estimates and Assumptions

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

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

*Use of Estimates.* The preparation of financial statements in conformity with U.S. GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets revenues and expenses, and related 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. Significant items subject to such estimates and assumptions include, but are not limited to, revenues; the allowance for doubtful receivables; recoverability of the carrying amount of inventory; fair values of financial instruments; and the assessment of deferred tax assets or liabilities. These estimates are often based on complex judgments and assumptions that management believes to be reasonable but are inherently uncertain and unpredictable. Actual results could differ from 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 the Company will not be able to collect all amounts due according to 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 believe all accounts receivable in excess of the allowances for doubtful receivables to be fully collectible. The Company does not accrue interest on trade accounts receivable.

**Revenue Recognition.** The Company recognizes revenue when all of the following are exist in order: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) price to the buyer is fixed or determinable; and (4) collectability is reasonably assured.

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

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

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

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

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

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

## **Results of Operations**

The following table sets forth the consolidated statements of operations of the Company for the years ended December 31, 2012 and 2011, both in dollars and as a percentage of net sales.

**Consolidated Statements of Operations**
**Year Ended December 31,**
**2012**
**2011**
*(in thousands except share and per share information)*

Net Sales	112,649	100.0%	110,600	100.0%
Cost of Sales	<u>(88,943)</u>	<u>79.0%</u>	<u>(92,852)</u>	<u>84.0%</u>
Gross profit	23,706	21.0%	17,748	16.0%
Research and development expenses	(4,611)	4.1%	(3,239)	2.9%
Selling and distribution expenses	(5,348)	4.7%	(4,452)	4.0%
General and administrative expenses including stock-based compensation	(11,479)	10.2%	(9,740)	8.8%
Litigation expenses	-	-	(1,500)	1.4%
Loss on exchange rate difference	(220)	0.2%	(852)	0.8%
Gain (loss) on derivative instruments	731	0.6%	(54)	-
Equity loss in an associate	<u>-</u>	-	<u>(108)</u>	0.1%
Income (loss) from operations	2,779	2.5%	(2,197)	2.0%
Other income	631	0.6%	753	0.7%
Interest expenses	<u>(705)</u>	0.6%	<u>(546)</u>	0.5%
Income (loss) before tax	2,705	2.4%	(1,990)	1.8%
Income tax expense	<u>(1,133)</u>	1.0%	<u>(464)</u>	0.4%
Net income (loss) for the year	1,572	1.4%	(2,454)	2.2%
Less: loss attributable to non-controlling interest	<u>(145)</u>	0.1%	<u>-</u>	
Net income (loss) attributable to the company	<u>1,717</u>	1.5%	<u>(2,454)</u>	2.2%
Income (loss) per common share – basic and diluted	<u>0.13</u>		<u>(0.18)</u>	
Weighted average common shares outstanding				
-basic and diluted	13,582,106		13,582,106	
Dividends declared per common share	-		-	

## Years ended December 31, 2012 and 2011

Net sales for the year ended December 31, 2012 were \$112.6 million compared to \$110.6 million for the year ended December 31, 2011, an increase of \$2.0 million, or 1.9%. The increase was due to a \$15.2 million increase in net sales of our lithium batteries (resulting from a 74.2% increase in the volume of batteries sold which was partially offset by a 4.0% decrease in the average selling price of such batteries) and a \$1.3 million increase in net sales of our Ni-MH battery units (resulting from a 5.9% increase in the number of Ni-MH battery units sold which was partially offset by a 3.7% decrease in the average selling price of such batteries), which was partly offset by an decrease in revenues from our material business from \$17.4 million in 2011 to \$2.9 million in 2012. This decrease was due to the strategic shift from materials trading to preparing for materials processing and recycling platform in our Ganzhou Facility. The increase in the number of both Ni-MH and lithium battery units sold in 2012 was primarily attributable to increased orders from our new and existing customers.

Cost of sales consists of the cost of mainly nickel, cobalt, lithium derived materials, labor, and overhead. Cost of sales were \$88.9 million for the year ended December 31, 2012 as compared to \$92.9 million for the comparable period in 2011. As a percentage of net sales, cost of sales decreased to 79.0% for the year ended December 31, 2012 compared to 84.0% for the comparable period in 2011. This decrease was attributable to decreases of raw material prices from the comparable period in 2011. In addition, it was attributable to a lower percentage of materials revenue with lower margin during the year ended December 31, 2012 as compared to the comparable period in 2011.

Gross profit for the year ended December 31, 2012 was \$23.7 million, or 21.0% of net sales, compared to \$17.7 million, or 16.0% of net sales, respectively, for the comparable period in 2011. Management considers gross profit to be a key performance indicator in managing our business. Gross profit margins are usually a factor of cost of sales, product mix and demand for products. This increase was largely attributable to decreases of raw material prices, including a 23% decrease in the average price of nickel from the comparable period in 2011. In addition, revenue from our New Materials business decreased to \$2.9 million for the year ended December 31, 2012 from \$17.4 million for the year ended December 31, 2011, which business has lower gross profit margins than our other business operations.

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

Selling and distribution expenses were \$5.3 million for the year ended December 31, 2012, or 4.7% of net sales, compared to \$4.5 million for the comparable period in 2011, or 4.0% of net sales, an increase of 20.1%. Selling and distribution expenses increased due to the expansion of our sales force and marketing activities, such as participation in industry trade shows and international travels to promote and sell our products abroad.

General and administrative expenses were \$11.5 million, or 10.2% of net sales, for the year ended December 31, 2012, compared to \$9.7 million, or 8.8% of net sales, for the comparable period in 2011. The primary reason for the increase was the \$1.6 million increase in the provision for bad debt expenses over the year ended December 31, 2012.

Research and development expenses were \$4.6 million, or 4.1% of net sales, for the year ended December 31, 2012, as compared to \$3.2 million, or 2.9% of net sales, for the comparable period in 2011. The increase was due to the expansion of our workforce to expand our research and development and management functions.

We experienced loss on the exchange rate difference between the U.S. Dollar and the RMB of \$220,597 and \$851,899, respectively, in the years ended December 31, 2012 and 2011. The difference on exchange rate loss was due to the appreciation of the RMB relative to the U.S. Dollar over the respective periods.

We experienced a gain on derivative instruments of approximately \$730,591 in the year ended December 31, 2012, which included a gain of \$493,882 on settled currency forwards and a gain of \$236,709 on unsettled currency forwards, as compared to a loss of \$54,229 for the comparable period in 2011, which included a loss of \$721,364 on the forward contract of nickel, a gain of \$654,388 on settled currency forwards and a gain of \$12,747 on unsettled currency forwards.

Other income consists of subsidy income, bank interest income and sundry income. Other income was \$630,842 for the year ended December 31, 2012, as compared to \$752,875 for the year ended December 31, 2011. The decrease was due to a decrease of \$375,117 of subsidy income from the government, which was partially offset by increases of \$121,820 in bank interest income and \$131,264 in sundry income.

Interest expenses were \$705,218 for the year ended December 31, 2012, as compared to \$545,884 for the respective comparable period in 2011. The fluctuation was due to a \$412,121 increase in interest expense related to increasing bank borrowings, which was partially offset by a \$252,787 increase in capitalized interest expenses. The increase in capitalized interest expenses was due to an increase in payments for the construction of the Huizhou facilities. Further increases in borrowing rates would further increase our interest expense, which would have a negative effect on our results of operations.

During the year ended December 31, 2012, we recorded a provision for income taxes of \$1.1 million, as compared to \$0.5 million for the respective comparable period in 2011. The change was due to an increase of income before taxes during this period.

Net income for the year ended December 31, 2012 was \$1.7 million, compared to net loss of \$2.5 million for the comparable period in 2011.

### **Liquidity and Capital Resources**

We had cash and cash equivalents of approximately \$6.6 million as of December 31, 2012, as compared to \$5.2 million as of December 31, 2011. Our funds are kept in financial institutions located in the P.R.C., which do not provide insurance for amounts on deposit. Moreover, we are subject to the regulations of the P.R.C. which restrict the transfer of cash from the P.R.C., except under certain specific circumstances. Accordingly, such funds may not be readily available to us to satisfy obligations which have been incurred outside the P.R.C.

To provide liquidity and flexibility in funding our operations, we borrow amounts under bank facilities and other external sources of financing. As of December 31, 2012, we had in place general banking facilities with seven financial institutions aggregating \$69.2 million. The maturity of these facilities is generally within one year. The facilities are subject to annual review and approval. Certain of these banking facilities are guaranteed by our Chief Executive Officer, Mr. Dang Yu Pan, and contain customary affirmative and negative covenants for secured credit facilities of this type. However, these covenants do not have any impact on our ability to undertake additional debt or equity financing. Interest rates are generally based on the banks' reference lending rates. No significant commitment fees are required to be paid for the banking facilities. As of December 31, 2012, we had utilized approximately \$34.5 million under such general credit facilities and had available unused credit facilities of \$34.7 million.

For the year ended December 31, 2012, net cash provided by operating activities was approximately \$3.8 million, as compared to net cash provided by operating activities of \$3.7 million for the comparable period in 2011. The net cash increase of \$0.1 million provided by operating activities is primarily attributable to, among other items, an increase of \$3.5 million in cash inflow from accounts payable, an increase of \$3.0 million in cash inflow from prepayments, an increase of \$1.5 million in cash inflow from income taxes payable, an increase of \$4.0 million in cash inflow from net income, which was significantly offset by a decrease of approximately \$5.8 million in accounts receivable, a decrease of \$4.4 million in inventories. The cash inflow increases in accounts payable and prepayments were, to a great extent, attributable to the more favorable credit period granted by our suppliers as well as reduce in prepayments. The cash outflow increase in inventories was mainly due to an increase in our purchases of raw materials. The cash outflow increase in accounts receivable was due to extending payment terms from 67 days to 74 days.

Net cash used in investing activities was \$13.0 million for the year ended December 31, 2012 compared to \$7.7 million for the comparable period in 2011. The net increase of \$5.3 million cash used in investing activities was primarily attributable to an increase in spending on the construction and deployment of plant and equipment in 2012 for the Huizhou factory that is expected to commence operation in the third quarter of 2013. We are equipping the factory with new and more advanced manufacturing capability machines.

Net cash provided by financing activities was \$10.0 million for the year ended December 31, 2012 as compared to net cash provided by financing activities of \$0.2 million for the comparable period in 2011. The net increase of \$9.8 million cash provided by financing activities was primarily attributable to an increase of \$7.9 million in proceeds from long-term bank loans, a decrease of \$12.4 million in repayment of short-term bank loans, an increase of \$950,992 in proceeds from non-controlling interest, an increase of \$9.7 million in proceeds from notes payable, a decrease of \$7.0 million in repayment of letters of credit which was partly offset by an increase of \$8.8 million in repayment of notes payable, a decrease of \$11.4 million in proceeds from letters of credit and an increase of \$8.4 million in restricted cash. The increase was mainly due to an increase in our long-term loan to fund the new factory located in Huizhou. We also utilize notes payable to meet our working capital needs. The increase in restricted cash was caused by the increase in proceeds from notes payable and foreign currency loans.

For fiscal year 2012 and 2011, our inventory turnover was 5.9 and 6.8 times, respectively. The average days outstanding of our accounts receivable at December 31, 2012 was 74 days, as compared to 67 days at December 31, 2011. Inventory turnover and average days outstanding of accounts receivables 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 \$8.0 million.

We are required to contribute a portion of our employees' total salaries to the Chinese government's social insurance funds, including retirement pension, medical insurance, unemployment insurance and job injuries insurance, and a housing assistance fund, in accordance with relevant regulations. We expect these contributions will contribute to administrative and other operating expenses in an amount of approximately \$84,554 per month based on the size of our current workforce. We expect the amount of our contribution to the government's social insurance funds to increase in the future as we expand our workforce and operations.

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

The use of working capital is primarily for the maintenance of our accounts receivable and inventory. We provide our major customers with payment terms ranging from 10 to 90 days. Additionally, our production lead time is approximately 30 to 40 days, from the inspection of incoming materials, to production, testing and packaging. We need to keep a large supply of raw materials 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 90 days; and (2) using short-term bank loans. We use accounts receivable as collateral for our loans. Upon receiving payment for accounts receivable, we pay our short-term loans. Our working capital management practices are designed to ensure that we maintain sufficient working capital.

#### Guarantees of Bank Loans

Mr. Dang Yu Pan, our Chairman and Chief Executive Officer, has provided personal guarantees under certain of our outstanding banking facilities. The following table shows the amount outstanding on each of our bank loans as of December 31, 2012 and the guarantors of each loan:

Name of Bank	Amount Granted	Amount Outstanding Under Loan	Guaranteed by
Bank of China	\$ 8.0 million	\$ 0.5 million	Land use rights
Shenzhen Development Bank Co., Ltd	\$ 22.5 million	\$ 13.6 million	Dang Yu Pan
Industrial and Commercial Bank of China	\$ 6.4 million	\$ 2.3 million	Dang Yu Pan
The Shanghai Commercial & Savings bank	\$ 12.6 million	\$ 3.9million	Cash (RMB) in bank
China Resources Bank of Zhuhai	\$ 6.4 million	\$ 6.4 million	Dang Yu Pan
China Everbright Bank	\$ 8.0 million	\$ 8.0 million	Dang Yu Pan
Wing Lung Bank (Hong Kong)	\$ 5.3million	\$ 0	Cash (RMB) in bank
Total:	\$ 69.2 million	\$ 34.7 million	



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

### **Inflation and Seasonality**

Inflation has not had a significant impact on our operations during the last two fiscal years. However, the volatile nickel prices affect our cost of sales constantly. In times of economic downturn, nickel prices tend to decline, and our gross margin tends to be higher than the periods when of economy growth, which usually brings higher metal prices.

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

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

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

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

### *Credit Risk*

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

### *Foreign Currency and Exchange Risk*

The Company maintains its financial statements in the functional currency of Renminbi ("RMB"). Substantially all of our operations are conducted in the P.R.C. and we pay the majority of expenses in RMB. Approximately 60% of our sales are made in U.S. Dollars. During the year ended December 31, 2012, the exchange rate of the RMB to the U.S. Dollar increased approximately 1.1% from the level at the end of December 31, 2011. This fluctuation resulted in a slight increase in our material costs during the year ended December 31, 2012. A future appreciation of the RMB against the U.S. Dollar would increase our costs when translated into U.S. Dollars and could adversely affect our margins unless we make sufficient offsetting sales. Conversion of RMB into foreign currencies is regulated by the People's Bank of China through a unified floating exchange rate system. Although the P.R.C. government has stated its intention to support the value of the RMB, there can be no assurance that such exchange rate will not continue to appreciate significantly against the U.S. Dollar. Exchange rate fluctuations may also affect the value, in U.S. Dollar terms, of our net assets. In addition, the RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. Due to the volatility of the US Dollar to our functional currency the Company put into place a hedging program to attempt to protect it from significant changes to the US Dollar which affects the value of its US dollar receivables and sales. As of December 31, 2012, the Company had a series of currency forwards totaling a notional amount of \$21.5 million expiring from January 2013 to November 2013. The terms of these derivative contracts are generally for 24 months or less. Changes in the fair value of these derivative contracts are recorded in earnings to offset the impact of loss on derivative instruments. The net gains of \$730,591 attributable to these activities are included in "loss on derivative instruments" for the year ended December 31, 2012.

### *Country Risk*

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

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

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

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

None.

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

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

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

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

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

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that as of December 31, 2012, our internal control over financial reporting is effective based on those criteria.

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

### *Credit Contract Between SZ Highpower and Shenzhen Development Bank*

On November 22, 2012, SZ Highpower entered into a Comprehensive Line of Credit Contract with Shenzhen Development Bank Co., Ltd. providing for a revolving line of credit of RMB 140,000,000.00 (US\$22,467,222). The line of credit expires on November 21, 2013. The loan is jointly guaranteed by Mr. Dang Yu Pan, the Company's Chief Executive Officer, and SZ Springpower. The following events constitute an event of default under the agreement: SZ Highpower breaches the contract or fails to fulfill its duties and obligations, or indicates by its conduct that it will not perform its obligations under a contract; the inaccuracy or incompleteness of the certifications and documents provided by SZ Highpower; SZ Highpower's concealment of true important information and failure to cooperate with the bank on any investigation or inspection; SZ Highpower's unauthorized change of the use or the loan, misappropriation of the loan or any use of the loan for illegal transactions; SZ Highpower's violation of similar contracts with the bank or any other third parties or issuance of any bonds; the breach by either guarantor of the guarantee contract, the occurrence of an event of default under the guarantee agreement or the invalidity or non-effectiveness of the guarantee agreement; SZ Highpower's transfer of property or use of assets to avoid debts by way of gratis, unreasonably-low priced transactions or for other improper means; SZ Highpower's use of false contracts and arrangements signed with any other third party (including but not limited to its related parties); SZ Highpower's avoidance of bank debts on purpose through related party transactions or otherwise; the occurrence of major problems in SZ Highpower's business circumstances, such as deteriorated financial situation, significant financial loss, loss of assets, or other financial crisis; SZ Highpower's becoming subject to administrative penalties, criminal sanctions because of illegal operations or investigation by authorities; SZ Highpower being subject to spin-off, merger, acquisition or a restructuring, a significant disposal of assets, capital reduction, liquidation, reorganization, revocation, declared bankrupt, dissolution, or similar type of transaction; a change in SZ Highpower's controlling shareholder or actual controller that the bank deems has or may endanger the realization of claims by the bank against SZ Highpower under the contract; the occurrence of a major event to SZ Highpower's controlling shareholders, actual controllers, legal representative, or senior management staff, including, but limited to, being subject administrative penalties, criminal sanctions because of illegal operations or being investigated by authorities; an adverse change in SZ Highpower's industry that the bank believes has or may endanger its abilities make successful claims against the company under the contract; SZ Highpower's failure to settle accounts or deposit money or other related business at the bank in accordance with the contract; or the occurrence of any other situation that endanger or may endanger the realization of claims by the bank against SZ Highpower under the contract. Upon the occurrence of any events of default under the agreement, the bank may change, suspend or terminate the line of credit; accelerate the maturity of any amount outstanding under the agreement; request an additional guaranty; deduct funds from SZ Highpower's account at the bank; or demand the guarantor perform under a guarantee agreement.

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

On August 29, 2012, HKHTC entered into an agreement for a revolving short-term secured loan facility in the amount of \$2,600,000 with Shanghai Commercial & Savings Bank Ltd., Hong Kong branch, which expires on August 29, 2013. The interest rate to be charged at 1.1% per annum above the 1-month LIBOR or at a rate not to be less than the bank's cost of funds. Interest is payable monthly commencing one month after the drawdown date or at the due date, whichever is earlier. The bank may, at any time in its absolute discretion, cancel or withdraw the facility and/or to demand immediate repayment or payment, as the case may be, of all amounts outstanding under the facility, whereupon the facility shall be cancelled or withdrawn. The bank may declare all amounts due pursuant to the facility upon the following events of default: (1) HKHTC fails to pay any amounts payable under the facility on its due date; (2) HKHTC fails to perform any of its obligations under the agreement; (3) HKHTC's bankruptcy; (4) any representation or warranty of HKHTC in the agreement proves to have been untrue or inaccurate in any material respect; (5) the occurrence of any situation which in the bank's opinion may materially and adversely affect HKHTC's ability to perform its obligations under the agreement; or (6) any shareholder (being a company) commits an act to go into voluntary liquidation or reconstruction or amalgamation.

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

On September 7, 2012, HKHTC entered into an agreement for a revolving short-term secured loan facility in the amount of \$6,000,000 with Shanghai Commercial & Savings Bank Ltd., Hong Kong branch, which expires on September 6, 2013. The interest rate to be charged at 2% per annum above the 6-month LIBOR or at 1.85% per annum above the 6-month TAFX, whichever is higher, but in any event not less than the bank's cost of funds. Interest is payable monthly commencing one month after the drawdown date or at the due date, whichever is earlier. The bank may, at any time in its absolute discretion, cancel or withdraw the facility and/or to demand immediate repayment or payment, as the case may be, of all amounts outstanding under the facility, whereupon the facility shall be cancelled or withdrawn. The bank may declare all amounts due pursuant to the facility upon the following events of default: (1) HKHTC fails to pay any amounts payable under the facility on its due date; (2) HKHTC fails to perform any of its obligations under the agreement; (3) HKHTC's bankruptcy; (4) any representation or warranty of HKHTC in the agreement proves to have been untrue or inaccurate in any material respect; (5) the occurrence of any situation which in the bank's opinion may materially and adversely affect HKHTC's ability to perform its obligations under the agreement; or (6) any shareholder (being a company) commits an act to go into voluntary liquidation or reconstruction or amalgamation.

The information included in this Item 9B is provided in accordance with Item 1.01 and Item 2.03 of Form 8-K.

### PART III

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

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

Name	Age	Position
Dang Yu Pan	46	Chairman of the Board and Chief Executive Officer
Wen Liang Li	48	Vice President, Chief Technology Officer and Director
Wen Wei Ma	44	Vice President of Manufacturing
Henry Sun	41	Chief Financial Officer and Corporate Secretary
Bin Ran	44	Vice President of Strategy and Human Resources
Wen Jia Xiao	37	Vice President of Quality Control
Xin Hai Li	51	Director
T. Joseph Fisher, III	62	Director
Ping Li	49	Director

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

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

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

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

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

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

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

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

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

#### **Family Relationships**

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

#### **Director Independence**

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

## **Board Committees**

### ***Audit Committee***

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

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

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

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

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

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

### ***Compensation Committee***

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

### ***Nominating Committee***

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

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

The Company's securities are currently registered under Section 12 of the Securities Exchange Act of 1934, as amended. As a result, and pursuant to Rule 16a-2, the Company's directors and officers and holders of 10% or more of its common stock are currently required to file statements of beneficial ownership with regards to their ownership of equity securities under Sections 13 or 16 of the Exchange Act. Based on a review of written representations from our executive officers and directors and a review of Forms 3, 4 and 5 furnished to us, we believe that during the fiscal year ended December 31, 2012, no directors, officers or owners of more than 10% failed to file, on a timely basis, reports





## Code of Ethics

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

## ITEM 11. EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table sets forth information concerning the compensation for the fiscal years ended December 31, 2012 and 2011 of the principal executive officer and up to two other officers whose compensation exceeded \$100,000 during such years (our "named executive officers").

Name and Position	Year	Salary	Bonus	Option Awards (1)	All other compensation	Total
Dang Yu Pan	2012	\$ 66,000	\$ 40,000	\$ -	\$ -	\$ 106,000
CEO and Chairman	2011	\$ 44,000	\$ -	\$ -	\$ 18,000(2)	\$ 62,000
Henry Sun (3)	2012	\$ 75,000	\$ 10,000	\$ 85,299	\$ -	\$ 170,299
Chief Financial Officer	2011	\$ 75,000	\$ -	\$ 50,650	\$ -	\$ 125,650
Wen Liang Li	2012	\$ 76,000	\$ 25,000	\$ -	\$ -	\$ 101,000
Vice President, Chief Technology Officer and Director	2011	\$ -	\$ -	\$ -	\$ -	\$ -

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

(2) Fees earned or paid for service as a director of the Company.

(3) Henry Sun was appointed Chief Financial Officer and Corporate Secretary of the Company in January 2011.

We do not have any employment agreements with any of our named executive officers. On January 21, 2011, the Company granted Mr. Sun ten-year options to purchase an aggregate of 250,000 shares of common stock at an exercise price of \$3.55 per share. With respect to the grant, options to purchase 75,000 shares have vested, while 75,000 will vest on November 1, 2013 and 100,000 on November 1, 2014.

### Outstanding Equity Awards at 2012 Fiscal Year End

The following table sets forth the outstanding stock options for each of our named executive officers as of December 31, 2012.

### OUTSANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Number of Securities Underlying Unexercised options (#) exercisable	Number of Securities Underlying Unexercised options (#) unexercisable	Option Exercise Price (\$)	Option Expiration Date
Henry Sun	75,000	175,000	3.55	1/11/2021

## Director Compensation

The following table shows information regarding the compensation earned during the fiscal year ended December 31, 2012 by members of board of directors. Compensation information for Dang Yu Pan and Wen Liang Li is described in the summary compensation table above.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
T. Joseph Fisher, III	36,000	-	3,839	-	-	12,000(2)	51,839
Xin Hai Li	19,020	-	-	-	-	-	19,020
Ping Li	19,020	-	-	-	-	-	19,020

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

(2) Represents fees for consulting services provided to the company.

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

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

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

## Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2012 regarding compensation plans, including any individual compensation arrangements, under which equity securities of Highpower International, Inc. are authorized for issuance.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	680,000	\$ 2.82	1,303,000
Equity compensation plans not approved by security holders	-	-	-
Total	-	N/A	1,303,000

As of March 21, 2013, there were 1,303,000 shares available for issuance pursuant to the Plan.

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

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options and warrants held by that person that are currently exercisable or become exercisable within 60 days of March 21, 2013 are deemed outstanding even if they have not actually been exercised. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

The following table sets forth as of March 21, 2013 certain information with respect to beneficial ownership of our common stock based on 13,582,106 issued and outstanding shares of common stock, by:

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

The number of shares of our common stock outstanding as of March 21, 2013 excludes 47,500 shares of our common stock issuable upon exercise of outstanding warrants and 680,000 shares of our common stock issuable upon the exercise of outstanding options. Unless otherwise indicated, the persons and entities named in the table have sole voting and sole investment power with respect to the shares set forth opposite the stockholder's name, subject to community property laws, where applicable. Unless otherwise indicated, the address of each stockholder listed in the table is c/o Building A1, Luoshan Industrial Zone, Shanxia, Pinghu, Longgang, Shenzhen, Guangdong, 518111, People's Republic of China.

Name and Address of Beneficial Owner	Title	Amount and Nature of Beneficial Ownership	Percent of Class
<b><i>Directors and Executive Officers</i></b>			
Dang Yu Pan	Chief Executive Officer and Chairman of the Board	2,932,073(1)	21.6%
Wen Liang Li	Vice President, Chief Technology Officer and Director	2,034,770	15.0%
Wen Wei Ma	Vice President of Manufacturing	924,897	6.8%
Henry Sun	Chief Financial Officer and Corporate Secretary	75,000(2)	0.5%
Xin Hai Li	Director	-	-
T. Joseph Fisher III	Director	10,000(2)	0.1%
Ping Li	Director	-	-
Officers and Directors as a Group (total of 9 persons)		6,168,740(3)	44.9%

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

(2) Represents shares underlying options to purchase shares of the Company's common stock.

(3) Includes shares underlying options to purchase 115,000 shares of the Company's common stock.

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

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

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

#### Guarantee Agreements

Mr. Dang Yu Pan, our Chairman and Chief Executive Officer, has provided personal guarantees under certain of our outstanding banking facilities. The following table shows the amount outstanding on each of our bank loans as of December 31, 2012 and the guarantors of each loan.

Name of Bank	Amount Granted	Amount Outstanding Under Loan	Guaranteed by
Bank of China	\$ 8.0 million	\$ 0.5 million	Land use rights
Shenzhen Development Bank Co., Ltd	\$ 22.5 million	\$ 13.6 million	Dang Yu Pan
Industrial and Commercial Bank of China	\$ 6.4 million	\$ 2.3 million	Dang Yu Pan
The Shanghai Commercial & Savings Bank	\$ 12.6 million	\$ 3.9million	Cash (RMB) in bank
China Resources Bank of Zhuhai	\$ 6.4 million	\$ 6.4 million	Dang Yu Pan
China Everbright Bank	\$ 8.0 million	\$ 8.0 million	Dang Yu Pan
Wing Lung bank (Hong Kong)	\$ 5.3million	\$-	Cash (RMB) in bank
Total:	\$ 69.2 million	\$ 34.7 million	

#### Policy for Approval of Related Party Transactions

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

#### Director Independence

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

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table presents professional audit service fees, including reimbursements for expenses and related fees billed for other services rendered by Dominic K.F. Chan & Co., who reviewed the Company’s quarterly financial statements for the quarters ended March 31 and June 30, 2011. The table also includes the professional audit service fees and all the audit-related expenses rendered by our new auditor, Marcum Bernstein & Pinchuk LLP, who reviewed the Company’s Form 10-Q for the quarter ended September 30, 2011 and audited the annual financial statements for the year ended December 31, 2011 and 2012.

	Year ended December 31,	
	2012	2011
Audit Fees (1)	\$ 198,123	\$ 112,000
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	<u>\$ 198,123</u>	<u>\$ 112,000</u>

(1) These were fees for professional services performed by our former auditor Dominic K.F. Chan & Co. and current auditor Marcum Bernstein & Pinchuk LLP for the review of quarterly financial reports and audits of annual financial statements in 2011 and 2012.

**Pre-Approval Policy**

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

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Shenzhen, People’s Republic of China, on March 28, 2013.

**Highpower International, Inc.**  
(Registrant)

Dated: March 28, 2013

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

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

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Dang Yu Pan</u> By: Dang Yu Pan	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 28, 2013
<u>/s/ Henry Sun</u> By: Henry Sun	Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2013
<u>/s/ Wen Liang Li</u> By: Wen Liang Li	Vice President, Chief Technology Officer and Director	March 28, 2013
<u>/s/ Xin Hai Li</u> By: Xin Hai Li	Director	March 28, 2013
<u>/s/ T. Joseph Fisher III</u> By: T. Joseph Fisher III	Director	March 28, 2013
<u>/s/ Ping Li</u> By: Ping Li	Director	March 28, 2013

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
2.1	Share Exchange Agreement, dated as of October 20, 2007, by and among the Registrant, Hong Kong Highpower Technology Company Limited and all of the shareholders of Hong Kong Highpower Technology Company Limited (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
3.1	Certificate of Incorporation (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form 10-SB (File No. 000-52103) filed with the Securities and Exchange Commission on July 5, 2006).
3.2	Bylaws (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form 10-SB (File No. 000-52103) filed with the Securities and Exchange Commission on July 5, 2006).
3.3	Articles of Merger Effecting Name Change (incorporated by reference from Exhibit 3.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2007).
3.4	Certificate of Amendment to Certificate of Incorporation (incorporated by reference from Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2010).
10.1*	Consumer Battery License Agreement, amended as of August 8, 2011, by and between Shenzhen Highpower Technology Co., Ltd and Ovonic Battery Company, Inc. (incorporated by reference from Exhibit 10.2 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 11, 2008).
10.2	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).
10.3	Bank Loan Contract dated March 21, 2012 by and between Wing Lung Bank and Hong Kong Highpower Technology Company Limited (incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2012).
10.4	Agreement and Line of Credit dated January 13, 2012 by and between Bank of China Ltd. Shenzhen Buji Sub-branch and Shenzhen Highpower Technology Company Limited (translated to English) (incorporated by reference from Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2012).
10.5	Bank Loan Contract for Fixed Assets dated January 13, 2012 by and between Bank of China Ltd. Shenzhen Buji Sub-branch and Shenzhen Highpower Technology Company Limited (translated to English) (incorporated by reference from Exhibit 10.3 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2012).
10.6	Guaranty Contracts of Maximum Amount dated January 12, 2012 corresponding to Agreement and Line of Credit dated January 13, 2012 and Bank Loan Contract for Fixed Assets dated January 13, 2012 (translated to English) (incorporated by reference from Exhibit 10.4 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2012).

- 10.7 Land Use Right Agreement dated January 5, 2012 by and between Ganzhou Land and Resource Bureau and Ganzhou Highpower Technology Company Limited (translated to English) (incorporated by reference from Exhibit 10.5 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2012).
- 10.8 Bank loan contract dated April 28, 2012 by and between Zhuhai China Resources Bank of Co., Ltd., Shenzhen Branch and Shenzhen Highpower and corresponding guarantee agreements (translated to English) (incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 17, 2012).
- 10.9 Bank Loan contract dated April 20, 2012 by and between Wing Lung Bank and Hong Kong Highpower Technology Company Limited (incorporated by reference from Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 17, 2012).
- 10.10 Bank loan contract dated August 1, 2012 by and between Shenzhen Highpower Technology Company Limited and China Everbright Bank Shenzhen Longhua Sub-branch (translated to English) (incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2012).
- 10.10(a) Guaranty contract dated August 1, 2012 by and between Pan Dangyu and China Everbright Bank Shenzhen Longhua Sub-branch (translated to English) (incorporated by reference from Exhibit 10.1(a) to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2012).
- 10.11 Bank Loan contract dated August 2, 2012 by and between Hong Kong Highpower Technology Company Limited and Shanghai Commercial & Savings Bank Ltd, Hong Kong branch (incorporated by reference from Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2012).
- 10.12 Working Capital Loan Contract dated September 10, 2012 by and between Shenzhen Highpower Technology Company Limited and Industrial and Commercial Bank of China Ltd, Shenzhen Henggang Branch (translated to English) (incorporated by reference from Exhibit 10.3 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2012).
- 10.12(a) Form of Guaranty Contract dated July 26, 2012 by and between Industrial and Commercial Bank of China Ltd, Shenzhen Henggang Branch, and the persons indicated in Schedule A attached to the Form of Agreement (translated to English) (incorporated by reference from Exhibit 10.3(a) to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2012).
- 10.13 Credit Contract dated August 29, 2012 by and between Hong Kong Highpower Technology Company Ltd. and Shanghai Commercial & Savings Bank, Hong Kong Branch.
- 10.14 Credit Contract dated September 7, 2012 by and between Hong Kong Highpower Technology Company Ltd. and Shanghai Commercial & Savings Bank, Hong Kong Branch.
- 10.15 Comprehensive Credit Line Contract dated November 22, 2012 by and between Shenzhen Highpower Technology, Ltd. and Shenzhen Development Bank, Xinzhou Branch (translated to English).
- 10.15(a) Form of Guaranty Contract dated November 22, 2012 by and between Shenzhen Development Bank, Xinzhou Branch and the persons and entities listed on Schedule A thereto (translated to English).
- 21.1 List of Subsidiaries (incorporated by reference from Exhibit 21.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2012).
- 23.1 Consent of Marcum Bernstein & Pinchuk LLP.



- 31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS\*\*XBRL Instance Document  
101.SCH\*\*XBRL Taxonomy Extension Schema Document  
101.CAL\*\*XBRL Taxonomy Extension Calculation Linkbase Document  
101.DEF\*\*XBRL Taxonomy Extension Definition Linkbase Document  
101.LAB\*\*XBRL Taxonomy Extension Label Linkbase Document  
101.PRE\*\*XBRL Taxonomy Extension Presentation Linkbase Document

---

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

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

**HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	PAGES
Report of Independent Registered Public Accounting Firm	F2
Consolidated Balance Sheets as of December 31, 2012 and 2011	F3
Consolidated Statements of Operations and Comprehensive Income (Loss) for the Years ended December 31, 2012 and 2011	F5
Consolidated Statements of Change in Equity for the Years ended December 31, 2012 and 2011	F6
Consolidated Statements of Cash Flows for the Years ended December 31, 2012 and 2011	F7
Notes to Consolidated Financial Statements for the Years ended December 31, 2012 and 2011	F8



**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated balance sheets of Highpower International, Inc. and Subsidiaries (together the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows (together the "consolidated financial statements") for the years ended December 31, 2012 and 2011. 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 consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial positions of the Company as of December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years ended December 31, 2012 and 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum Bernstein & Pinchuk llp  
New York, New York  
April 1, 2013

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

	<i>December 31,</i> <b>2012</b>	<i>December 31,</i> <b>2011</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	6,627,334	5,175,623
Restricted cash	27,695,569	12,708,999
Accounts receivable, net	25,323,899	21,129,418
Notes receivable	392,242	515,107
Prepayments	3,223,795	4,251,723
Other receivables	802,907	1,041,614
Inventories	<u>16,719,807</u>	<u>13,512,942</u>
<b>Total Current Assets</b>	<u><b>80,785,553</b></u>	<u><b>58,335,426</b></u>
Property, plant and equipment, net	33,462,369	25,462,656
Land use right, net	4,423,348	3,132,965
Intangible asset, net	700,000	750,000
Deferred tax assets	762,954	857,209
Foreign currency derivatives assets	<u>255,508</u>	<u>15,653</u>
<b>TOTAL ASSETS</b>	<u><b>120,389,732</b></u>	<u><b>88,553,909</b></u>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	27,509,195	22,153,822
Deferred revenue	661,178	-
Short-term bank loan	20,478,604	9,545,383
Notes payable	26,397,200	17,909,843
Letter of credit	-	2,880,000
Other payables and accrued liabilities	4,485,918	6,941,063
Income taxes payable	1,180,469	411,536
Current portion of long-term loan	<u>1,925,762</u>	<u>-</u>
<b>Total Current Liabilities</b>	<u><b>82,638,326</b></u>	<u><b>59,841,647</b></u>
Long-term bank loan	5,777,286	-
<b>TOTAL LIABILITIES</b>	<u><b>88,415,612</b></u>	<u><b>59,841,647</b></u>
<b>COMMITMENTS AND CONTINGENCIES</b>		

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

	<i>December 31,</i> <u>2012</u>	<i>December 31,</i> <u>2011</u>
<b>EQUITY</b>		
Stockholder's equity		
Preferred stock		
(Par value: \$0.0001, authorized: 10,000,000 shares, issued and outstanding: none)	-	-
Common stock		
(Par value: \$0.0001, authorized: 100,000,000 shares, 13,582,106 shares issued and outstanding at December 31, 2012 and 2011)	1,358	1,358
Additional paid-in capital	6,035,230	5,831,237
Statutory and other reserves	2,790,484	2,726,390
Retained earnings	17,291,584	15,638,656
Accumulated other comprehensive income	<u>5,049,864</u>	<u>4,514,621</u>
Total Equity for the Company's Stockholders	<u>31,168,520</u>	<u>28,712,262</u>
Non-controlling interest	805,600	-
<b>TOTAL EQUITY</b>	<b><u>31,974,120</u></b>	<b><u>28,712,262</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>120,389,732</u></b>	<b><u>88,553,909</u></b>

See notes to consolidated financial statements

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

	<i>For the year ended December 31,</i>	
	<u>2012</u>	<u>2011</u>
Net sales	112,648,705	110,600,477
Cost of sales	<u>(88,942,281)</u>	<u>(92,852,899)</u>
Gross profit	23,706,424	17,747,578
Research and development expenses	(4,611,054)	(3,239,436)
Selling and distribution expenses	(5,347,692)	(4,451,548)
General and administrative expenses, including stock-based compensation	(11,478,541)	(9,739,554)
Litigation expenses	-	(1,500,000)
Loss on exchange rate difference	(220,597)	(851,899)
Gain (loss) on derivative instruments	730,591	(54,229)
Equity loss in an associate	-	(108,346)
Total operation expenses	<u>(20,927,293)</u>	<u>(19,945,012)</u>
Income (loss) from operations	2,779,131	(2,197,434)
Other income	630,842	752,875
Interest expenses	<u>(705,218)</u>	<u>(545,884)</u>
Income (loss) before taxes	2,704,755	(1,990,443)
Income taxes expense	<u>(1,132,340)</u>	<u>(463,556)</u>
Net income (loss)	<u>1,572,415</u>	<u>(2,453,999)</u>
Less: net loss attributable to non-controlling interest	(144,607)	-
Net income (loss) attributable to the Company	<u>1,717,022</u>	<u>(2,453,999)</u>
Comprehensive income		
Net income (loss)	1,572,415	(2,453,999)
Foreign currency translation gain	532,918	1,972,214
Comprehensive income (loss)	<u>2,105,333</u>	<u>(481,785)</u>
Less: comprehensive loss attributable to non-controlling interest	(146,932)	-
Comprehensive income (loss) attributable to the Company	<u>2,252,265</u>	<u>(481,785)</u>
Earnings (loss) per share of common stock attributable to the Company		
- Basic and diluted	<u>0.13</u>	<u>(0.18)</u>
Weighted average common shares outstanding		
- Basic and diluted	<u>13,582,106</u>	<u>13,582,106</u>

See notes to consolidated financial statements

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

	<i>Preferred stock</i>	<i>Common stock</i>		<i>Additional paid-in capital</i>	<i>Statutory and other reserves</i>	<i>Retained earnings</i>	<i>Accumulated other comprehensive income</i>	<i>Non-controlling interest</i>	<i>Total</i>
		<i>Shares</i>	<i>Amount</i>						
Balance, December 31, 2010	-	13,582,106	1,358	5,180,318	2,596,155	18,222,890	2,542,407	-	28,543,128
Foreign currency translation adjustments	-	-	-	-	-	-	1,972,214	-	1,972,214
Share based compensation expenses	-	-	-	650,919	-	-	-	-	650,919
Transfer to statutory and other reserves	-	-	-	-	130,235	(130,235)	-	-	-
Net loss	-	-	-	-	-	(2,453,999)	-	-	(2,453,999)
Balance, December 31, 2011	-	13,582,106	1,358	5,831,237	2,726,390	15,638,656	4,514,621	-	28,712,262
Proceeds from non-controlling interest	-	-	-	-	-	-	-	952,532	952,532
Foreign currency translation adjustments	-	-	-	-	-	-	535,243	(2,325)	532,918
Share based compensation expenses	-	-	-	203,993	-	-	-	-	203,993
Transfer to statutory and other reserves	-	-	-	-	64,094	(64,094)	-	-	-
Net income	-	-	-	-	-	1,717,022	-	(144,607)	1,572,415
Balance, December 31, 2012	-	13,582,106	1,358	6,035,230	2,790,484	17,291,584	5,049,864	805,600	31,974,120

See notes to consolidated financial statements

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

	<i>For the year ended December 31,</i>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	1,572,415	(2,453,999)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,090,403	1,848,824
Allowance for doubtful accounts	1,744,655	387,734
Loss on disposal of property, plant and equipment	71,473	24,279
Equity loss in an associate	-	108,346
Loss on derivative instruments	(236,709)	54,229
Deferred income tax	102,614	(27,532)
Share based payment	203,993	650,919
Changes in operating assets and liabilities:		
Accounts receivable	(5,650,965)	179,538
Notes receivable	127,414	(241,465)
Prepayments	1,063,693	(1,936,925)
Other receivables	248,026	(225,015)
Inventories	(3,020,127)	1,380,674
Accounts payable	6,624,896	3,107,868
Deferred revenue	653,015	-
Other payables and accrued liabilities	(2,503,482)	1,630,890
Income taxes payable	754,589	(793,633)
<b>Net cash flows provided by operating activities</b>	<b><u>3,845,903</u></b>	<b><u>3,694,732</u></b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(11,646,583)	(7,674,215)
Acquisition of land use right	(1,327,754)	-
<b>Net cash flows used in investing activities</b>	<b><u>(12,974,337)</u></b>	<b><u>(7,674,215)</u></b>
<b>Cash flows from financing activities</b>		
Proceeds from bank borrowings	14,627,171	13,936,095
Repayment of bank borrowings	(3,776,533)	(16,186,300)
Proceeds from notes payable	46,359,978	36,655,387
Repayment of notes payable	(38,188,330)	(29,407,905)
Proceeds from letter credit	-	11,403,244
Repayment of letter credit	(2,880,000)	(9,916,133)
Proceeds from long term bank loans	7,924,935	-
Repayment of long term bank loans	(316,997)	-
Proceeds from non-controlling interest	950,992	-
Increase in restricted cash	(14,696,735)	(6,279,671)
<b>Net cash flows provided by financing activities</b>	<b><u>10,004,481</u></b>	<b><u>204,717</u></b>
Effect of foreign currency translation on cash and cash equivalents	575,664	459,760
Net increase (decrease) in cash and cash equivalents	1,451,711	(3,315,006)
Cash and cash equivalents - beginning of year	5,175,623	8,490,629
Cash and cash equivalents - end of year	<u>6,627,334</u>	<u>5,175,623</u>
Supplemental disclosures for cash flow information:		
Cash paid for:		
Income taxes	<u>275,136</u>	<u>1,303,348</u>
Interest expenses	<u>1,247,217</u>	<u>788,815</u>
Non-cash transactions		
Accounts payable for construction in progress	<u>3,767,497</u>	<u>5,319,488</u>

See notes to consolidated financial statements



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

**1. Principal activities and organization**

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

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

On February 8, 2012, GZ Highpower, which was incorporated in September 21, 2010, increased its registered capital to RMB30,000,000 (\$4,762,586) from RMB2,000,000 (\$293,574). SZ Highpower holds 60% of the equity interest of GZ Highpower, and four founding management members of GZ Highpower hold the remaining 40%. As of December 31, 2012, the paid-in capital was approximately RMB15,000,000 (\$2,381,293).

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

On September 14, 2012, SZ Springpower increased its registered capital from \$1,000,000 to \$3,330,000. SZ Highpower paid the increased capital. As of December 31, 2012, SZ Highpower holds 69.97% of the equity interest of SZ Springpower, and HKHTC holds the remaining 30.03%.

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

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

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

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

Name of company	Place and date incorporation	Attributable equity interest held	Principal activities
Icon Energy System Co., Ltd. ("ICON")	P.R.C. February 23, 2011	100%	Research and production of advanced battery packs and systems
Huizhou Highpower Technology Co., Ltd ("HZ HTC")	P.R.C. March 8, 2012	100%	Manufacturing & marketing of batteries

**2. Summary of significant accounting policies**

Basis of presentation

The consolidated financial statements have been prepared in accordance with the United States generally accepted accounting principles ("U.S. GAAP").

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of estimates

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

Concentrations of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of accounts receivable. The Company extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral or other security. In order to minimize the credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Further, the Company reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Company considers that the Company's credit risk is significantly reduced.

During the years ended December 31, 2012 and 2011, one major customer accounted for 10% or more of total net sales. The percentage of total net sales from this one major customer in the years ended December 31, 2012 and 2011 was 14.8% and 19.7%, respectively.

One of the Company's customers accounted for 10% or more of total accounts receivable. The Company's top third-party customer accounted for 16% of the accounts receivable as of December 31, 2012 and 19.7% of the accounts receivable as of December 31, 2011.

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

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

Cash and cash equivalents

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

Restricted cash

Restricted cash include time deposits and cash security for bank guarantee promissory notes. Restricted cash was \$27,695,569 and \$12,708,999 as of December 31, 2012 and 2011. The increase in the balance of restricted cash was due to the increase of time deposit by \$9,581,955 and increase of deposit for bank guarantee promissory notes by \$5,404,615.

Accounts receivable

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

Inventories

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

Property, plant and equipment

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

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

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

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

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

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

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

Land use rights, net

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

Intangible assets

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

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

Deferred Revenue

Deferred revenue represents the government grants received related to developing property, and will be recognized over the useful lives of the assets. The Company received a grant of \$661,178 on May 28, 2012 from the Department of Industry and Information Technology for the construction of the new factory in Ganzhou City, Jiangxi Province, P.R.C. The Company will apply the deferred revenue to reduce the cost basis of the assets, upon completion of construction of the warehouse, thus reducing the annual depreciation charge over the estimated useful life of the property, plant and equipment of the new factory.

Revenue recognition

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

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

Research and development

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

Advertising

Advertising which generally represents the cost of promotions to create or stimulate a positive image of the Company or a desire to buy the Company's products and services, are expensed as incurred. No advertising expense was recorded for the years ended December 31, 2012 and 2011.

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

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

Income taxes

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

Uncertain tax positions

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company classifies the liability for unrecognized tax benefits as current to the extent that the Company anticipates payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized and recorded as necessary in the provision for income taxes. There were no uncertain tax positions in 2012 and 2011. The Company's evaluation of uncertain tax positions was performed for the tax years ended December 31, 2008 and forward, the tax years which remain subject to examination as of December 31, 2012.

Comprehensive income

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

Foreign currency translation and transactions

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

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

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

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

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

Fair value of financial instruments

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

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

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

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

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

Derivatives

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

Earnings per share

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

There were 727,500 and 692,500 options and warrants outstanding as of December 31, 2012 and 2011, respectively, which were not included in the calculation of diluted income per share for the years ended because their effect would have been anti-dilutive for their exercise prices were above the average market values in such periods.

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

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

Recently issued accounting pronouncements

In the period ended March 21, 2013, the FASB has issued ASU No. 2012-01 through ASU 2013-05, which is not expected to have a material impact on the consolidated financial statements upon adoption.

**3. Accounts receivable, net**

As of December 31, 2012 and December 31, 2011, accounts receivable included the following:

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	\$	\$
Accounts receivable	27,353,677	21,520,763
Less: allowance for doubtful debts	2,029,778	391,345
	25,323,899	21,129,418

The Company experienced bad debts of \$1,744,655 and \$387,734, respectively, during the years ended December 31, 2012 and 2011.

The Company wrote off accounts receivables of \$111,032 and \$149,830, respectively, in the years ended December 31, 2012 and 2011, when the balances were deemed uncollectible.

**4. Prepayments**

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	\$	\$
Purchase deposits	1,120,911	2,718,685
Advances to staff	70,882	48,678
Other deposits and prepayments	1,261,523	871,679
Value-added tax prepayment	770,479	612,681
	3,223,795	4,251,723

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

**5. Other receivables**

	<i>December 31, 2012</i>	<i>December 31, 2011</i>
	\$	\$
Deposit for land use right	507,592	755,354
Other receivables	295,315	286,260
	802,907	1,041,614

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

**6. Inventories**

	<i>December 31,</i> <u>2012</u>	<i>December 31,</i> <u>2011</u>
	\$	\$
Raw materials	4,237,094	4,508,201
Work in progress	2,678,471	900,440
Finished goods	9,647,671	7,923,101
Packing materials	12,727	15,581
Consumables	143,844	165,619
	<u>16,719,807</u>	<u>13,512,942</u>

Where there is evidence that the utility of inventories, in their disposal in the ordinary course of business, will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels, or other causes, the inventories is written down to their fair value for the difference with charges to cost of sales. \$248,622 and \$228,843 was written down for inventories as of December 31, 2012 and 2011, respectively.

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

	<i>December 31,</i> <u>2012</u>	<i>December 31,</i> <u>2011</u>
	\$	\$
Construction in progress	20,769,452	14,016,485
Furniture, fixtures and office equipment	3,066,411	2,734,321
Leasehold improvement	99,477	98,305
Machinery and equipment	15,807,695	13,429,090
Motor vehicles	1,316,717	1,225,948
Building	271,921	268,717
	<u>41,331,673</u>	<u>31,772,866</u>
Less: accumulated depreciation	7,869,304	6,310,210
	<u>33,462,369</u>	<u>25,462,656</u>

The Company recorded depreciation expenses of \$1,950,205 and \$1,719,305 for the years ended December 31, 2012 and 2011, respectively.

The capitalized interest recognized in construction in progress was \$541,999 and \$289,212 for the years ended December 31, 2012 and December 31, 2011.

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



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

**8. Land use rights, net**

	<i>December 31,</i> <i>2012</i>	<i>December 31,</i> <i>2011</i>
	\$	\$
<b>Cost</b>		
Land located in Huizhou	3,446,001	3,405,396
Land located in Ganzhou	1,344,353	-
Accumulated amortization	(367,006)	(272,431)
<b>Net</b>	<b>4,423,348</b>	<b>3,132,965</b>

As of December 31, 2012, land use rights of the Company included certain parcels of land located in Huizhou City, Guangdong Province, the P.R.C. and Ganzhou City, Jiangxi Province, the P.R.C., with a total net carrying value of \$4,423,348. The land use rights for land with area of approximately 126,605 square meters and 58,669 square meters, which will expire on May 23, 2057 and January 4, 2062, respectively.

The land use rights are being amortized annually using the straight-line method over the lease terms of 50 years. The Company recorded amortization expenses of \$90,198 and \$79,519 for the years ended December 31, 2012 and 2011, respectively.

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

**9. Intangible assets, net**

	<i>December 31,</i> <i>2012</i>	<i>December 31,</i> <i>2011</i>
	\$	\$
<b>Cost</b>		
Consumer battery license fee	1,000,000	1,000,000
Accumulated amortization	(300,000)	(250,000)
<b>Net</b>	<b>700,000</b>	<b>750,000</b>

The Company is amortizing the \$1,000,000 cost of the Consumer Battery License Agreement over a period of 20 years on the straight line basis over the estimated useful life of the underlying technology, which is based on the Company's assessment of existing battery technology, current trends in the battery business, potential developments and improvements, and the Company's current business plan. Amortization expenses included in selling and distribution costs for the years ended December 31, 2012 and 2011 were \$50,000, and \$50,000, respectively.

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

10. Other payables and accrued liabilities

	<i>December 31,</i> <u>2012</u>	<i>December 31,</i> <u>2011</u>
	\$	\$
Accrued expenses	3,197,899	4,348,657
Royalty payable	570,120	877,905
Sales deposits received	430,503	1,196,711
Other payables	<u>287,396</u>	<u>517,790</u>
	<u>4,485,918</u>	<u>6,941,063</u>

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

**11. Taxation**

The Company and its subsidiaries file tax returns separately.

1) VAT

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

The Company's P.R.C. subsidiaries are subject to VAT at 17% of their revenues.

2) Income tax

United States

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

Hong Kong

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

P.R.C.

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

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

The components of the provision for income taxes expenses are:

	<i>For the year ended</i>	
	<i>December 31,</i>	
	<u>2012</u>	<u>2011</u>
	\$	\$
Current	1,029,726	491,088
Deferred	102,614	(27,532)
Total	<u>1,132,340</u>	<u>463,556</u>

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

**11. Taxation (continued)**

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

	<i>For the year ended</i>	
	<i>December 31,</i>	
	<u>2012</u>	<u>2011</u>
	\$	\$
Income (loss) before tax	2,704,755	(1,990,443)
Provision for income taxes at applicable income tax rate	747,784	(541,450)
Effect of preferential tax rate	(330,897)	(256,082)
Non-deductible expenses	103,099	654,938
Change in valuation allowance	612,354	606,150
Effective enterprise income tax	<u>1,132,340</u>	<u>463,556</u>

3) Deferred tax assets

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

	<i>For the year ended</i>	
	<i>December 31,</i>	
	<u>2012</u>	<u>2011</u>
	\$	\$
Tax loss carry-forward	2,025,888	1,627,910
Allowance for doubtful receivables	72,124	85,400
Allowance for inventory obsolescence	111,227	134,248
Fair value change of currency forwards	(11,372)	(19,415)
Difference for sales cut-off	49,364	65,434
Deferred revenue	165,295	-
Total gross deferred tax assets	2,412,526	1,893,577
Valuation allowance	(1,649,572)	(1,036,368)
Total net deferred tax assets	<u>762,954</u>	<u>857,209</u>

**12. Notes payable**

Notes payable are presented to certain suppliers as a payment against the outstanding trade payables. These notes payable are bank guarantee promissory notes which are non-interest bearing and generally mature within six months. The outstanding bank guarantee promissory notes are secured by restricted cash deposited in banks. Outstanding notes payable were \$26,397,200 and \$17,909,843 as of December 31, 2012 and 2011, respectively.

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

13. Short-term loans

	<i>December 31,</i> <i>2012</i>	<i>December 31,</i> <i>2011</i>
	\$	\$
Guaranteed and repayable within one year short-term bank loans	20,478,604	9,545,383

As of December 31, 2012, the above bank borrowings were for working capital purposes and were secured by personal guarantees executed by certain directors of the Company and a land use right with carrying amount \$3,101,401 pledged as collateral.

The loans were primarily obtained for general working capital carried interest rates ranging from 1.32% to 7.22% per annum.

14. Line of credit

The Company entered into some credit contracts revolving line of credit, which were used by short-term loans and bank acceptance bills. The following tables summarize the unused lines of credit as of December 31, 2012 and December 31, 2011:

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

Lender	December 31, 2011			
	Starting date	Maturity date	Line of credit	Unused line of credit
			\$	\$
Industrial and Commercial Bank of China	11/29/2011	8/31/2013	6,343,568	4,898,820
Shenzhen Development Bank Co., Ltd	12/12/2011	11/27/2012	15,858,919	10,768,206
Standard Chartered (China) Co., Ltd.	1/21/2011	3/30/2012	2,000,000	2,000,000
China Everbright Bank	6/9/2011	6/9/2012	7,929,460	3,103,590
Standard Chartered (Hong Kong) Co., Ltd.	1/21/2011	1/21/2012	13,000,000	10,120,000
Citibank (Hong Kong) Co., Ltd.	1/31/2011	1/31/2012	3,000,000	3,000,000
Industrial and Commercial Bank of China	11/29/2011	9/8/2012	3,171,784	-
Wing Lung Bank Ltd.	8/29/2011	3/20/2012	2,600,000	-
Wing Lung Bank Ltd.	8/29/2011	3/20/2012	2,574,665	-
<b>Total</b>			<b>56,478,396</b>	<b>33,890,616</b>

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

The line of credits from Bank of China, Industrial and Commercial Bank of China, and China Everbright Bank are guaranteed by the Company's Chief Executive Officer, Mr. Dang Yu Pan.

The line of credits from Shenzhen Development Bank Co., Ltd, China Resources Bank of Zhuhai and Standard Chartered (China) Co., Ltd are guaranteed by the Company's Chief Executive Officer, Mr. Dang Yu Pan.

Certain of the agreements governing the Company's loans include standard affirmative and negative covenants, including restrictions on granting additional pledges on the Company's property and incurring additional debt and obligations to provide advance notice of major corporate actions, and other covenants including: the borrower may not serve as a guarantor for more than double its net assets; the borrower is restricted in certain circumstances from using the loans in connection with related party transactions or other transactions with affiliates; the borrower must provide monthly reports to certain lenders describing the actual use of loans; the borrower may need to obtain approval to engage in major corporate transactions; and the borrower may need to obtain approval to increase overseas investments, guarantee additional debt or incur additional debt by an amount which exceeds 20% of its total net assets should the lender determine that such action will have a material impact on the ability of the borrower to repay the loan. The covenants in these loan agreements could prohibit the Company from incurring any additional debt without consent from its lenders. The Company believes it would be able to obtain consents from the lenders in the event it needed to do so. The agreements governing the Company's loans may also include covenants that, in certain circumstances, may require the Company's P.R.C. operating subsidiaries to give notice to, or obtain consent from, certain of their lenders prior to making a distribution of net profit, as well as covenants restricting the ability of the Company's P.R.C. operating subsidiaries from extending loans. As of December 31, 2012 and December 31, 2011, the Company was in compliance with all material covenants in its loan agreements.

**15. Long-term loans**

	<i>December 31,</i> <i>2012</i>	<i>December 31,</i> <i>2011</i>
	\$	\$
Long term loans from Bank of China	7,703,048	-
Less: current portion of long-term borrowings	1,925,762	-
Long-term borrowings, net of current portion	5,777,286	-

On January 13, 2012, the Company borrowed \$7,954,437 (RMB50 million) from Bank of China, which is guaranteed by HK Highpower, SZ Highpower, SZ Springpower and the Company's Chief Executive Officer, Mr. Dang Yu Pan. It is five-year long-term loan, with an annual interest rate equal to 110% of the benchmark-lending rate of PBOC, which is 7.05% for the year ended December 31, 2012. Interest expenses are to be paid quarterly.

The interest expenses were \$488,004 for the year ended December 31, 2012.

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

	\$
Within 1 year	1,925,762
2 to 3 years	1,925,762
3 to 4 years	1,925,762
4 to 5 years	1,925,762
	7,703,048

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

**16. Share-based compensation**

2008 Omnibus Incentive Plan

The 2008 Omnibus Incentive Plan (the "2008 Plan") was approved by the Company's Board of Directors on October 30, 2008 and became effective upon the approval of the Company's stockholders on December 11, 2008. The 2008 Plan has a ten year term. The 2008 Plan reserves two million shares of common stock for issuance, subject to increase from time to time by the number of shares: (i) subject to outstanding awards granted under the Company's prior equity compensation plans that terminate without delivery of any stock (to the extent such shares would have been available for issuance under such prior plan), and (ii) subject to awards assumed or substituted in connection with the acquisition of another company.

The 2008 Plan authorizes the issuance of awards including stock options, restricted stock units (RSUs), restricted stock, unrestricted stock, stock appreciation rights (SARs) and other equity and/or cash performance incentive awards to employees, directors, and consultants of the Company. Subject to certain restrictions, the Compensation Committee of the Board of Directors has broad discretion to establish the terms and conditions for awards under the 2008 Plan, including the number of shares, vesting conditions and the required service or performance criteria. Options and SARs have a contractual term of ten years and generally vest over four to five years with an exercise price equal to the fair market value on the date of grant. Incentive stock options (ISOs) granted must have an exercise price equal to the fair market value on the date of grant. Repricing of stock options and SARs is prohibited without stockholder approval. Certain change in control transactions may cause awards granted under the 2008 Plan to vest, unless the awards are continued or substituted for in connection with the transaction. As of December 31, 2012, approximately 1,303,000 shares of common stock remained available for issuance pursuant to awards granted under the 2008 Plan.

**Share-based compensation related to employees**

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Term in Years</u>
Outstanding, January 1, 2011			-
Granted	1,015,000	\$ 3.23	
Exercised	-	-	
Forfeited	(85,000)	\$ 3.55	
Canceled	<u>(300,000)</u>	3.55	
Outstanding, December 31, 2011	<u>630,000</u>	<u>\$ 3.04</u>	<u>9.23</u>
Exercisable, December 31, 2011	103,000	3.55	9.06
Vested and expected to vest, December 31, 2011	<u>525,163</u>	<u>\$ 3.06</u>	<u>9.22</u>

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

16. Share-based compensation (continued)

Share-based compensation related to employees (continued)

	Number of Shares	Weighted Average Exercise Price	Remaining Contractual Term in Years
Outstanding, January 1, 2012	630,000	3.04	9.23
Granted	100,000	\$ 1.15	-
Exercised	-	-	-
Forfeited	(65,000)	\$ 2.51	-
Canceled	-	-	-
Outstanding, December 31, 2012	<u>665,000</u>	<u>\$ 2.81</u>	<u>8.35</u>
Exercisable, December 31, 2012	240,000	3.23	8.16
Vested and expected to vest, December 31, 2012	<u>636,112</u>	<u>\$ 2.82</u>	<u>8.35</u>

The aggregate intrinsic value of options exercisable and options vested and expected to vest at December 31, 2012 was zero. Intrinsic value is calculated as the amount by which the current market value of a share of common stock exceeds the exercise price multiplied by the number of option shares.

During the year ended December 31, 2012 the Company granted options to purchase 100,000 shares of common stock to one employee at a weighted average exercise price of \$1.15 per share. As of the date of this report, two employees had resigned and options to purchase a total of 65,000 shares had been forfeited in accordance with the terms and conditions of the 2008 Plan.

The weighted-average fair value of options granted to employees for the year ended December 31, 2012 was \$0.74 per share as calculated using the Black-Scholes pricing model, with the following weighted-average assumptions:

	<i>For the year ended</i>	
	<i>December 31,</i>	
	<u>2012</u>	<u>2011</u>
Expected volatility	71.78%	40.08%
Risk-free interest rate	1.09%	2.30%
Expected term from grant date (in years)	6.25	6.15
Dividend rate	-	-
Fair value	\$ 0.74	\$ 1.38

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



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

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

**Total share-based payment expenses**

No share-based payment expense was capitalized in the periods presented. As of December 31, 2012 the gross amount of unrecognized share-based compensation expense relating to unvested share-based compensation was approximately \$0.4 million, which the Company anticipates recognizing as a charge against income over a weighted average period of 2.1 years.

In connection with the grant of stock options to employees and nonemployees, the Company recorded stock-based compensation charges of \$202,976 and \$1,017 and \$650,652 and \$267, respectively, for the years ended December 31, 2012 and 2011.

Expected Term

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

Expected Volatility

The Company has limited stock trading history and it is not able to reasonably estimate the fair value of its equity share options because it is not practicable for it to estimate the expected volatility of its share price. The expected volatilities used for the year ended December 31, 2012 are based upon the volatilities of a peer group of comparable publicly traded companies. This peer group was selected by the Company using criteria including similar industry, similar stage of development and comparable market capitalization.

Risk free Interest Rate

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

Dividend Yield

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

Forfeitures

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

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

**17. Earnings per share**

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

The following tables set forth the computation of basic and diluted earnings per common share for the years ended December 31, 2012 and 2011.

	<i>Year ended December 31,</i>	
	<u>2012</u>	<u>2011</u>
	\$	\$
<b>Numerator:</b>		
Net income (loss) attributable to the Company	<u>1,717,022</u>	<u>(2,453,999)</u>
<b>Denominator:</b>		
<b>Weighted-average shares outstanding</b>		
- Basic and diluted	<u>13,582,106</u>	<u>13,582,106</u>
<b>Earnings (loss) per common share</b>		
- Basic and diluted	<u>0.13</u>	<u>(0.18)</u>

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

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

**18. Share warrants**

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

The fair value of the warrants at September 19, 2008, the issuance date is \$276,000. All warrants were evaluated for liability treatment and were determined to be equity instruments.

On December 16, 2009, a warrant holder exercised 5,000 shares of the warrants via a cashless exercise. The Company issued 2,510 shares of common stock upon the exercise of the warrants at no consideration. At December 31, 2012, warrants to purchase 47,500 shares of common stock were still outstanding.

**19. Defined contribution plan**

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

The total amounts for such employee benefits, which were expensed as incurred, were \$1,014,648 and \$868,675 for the years ended December 31, 2012 and 2011, respectively.

**20. Commitments and contingencies**

Operating leases commitments

The Company leases factory and office premises under various non-cancelable operating lease agreements that expire at various dates through years 2012 to 2016, with an option to renew the lease. All leases are on a fixed repayment basis. None of the leases includes contingent rentals. Minimum future commitments under these agreements as of December 31, 2012 are as follows:

	\$
2013	1,260,024
2014	975,067
2015	908,535
2016	853,801
	<u>3,997,427</u>

Rent expenses for the years ended December 31, 2012 and 2011 were \$1,269,334 and \$1,166,522, respectively.

Capital commitments

The Company had contracted capital commitments of \$791,934 for the construction of the Ganzhou plant as of December 31, 2012 and \$1,755,387 for the construction of the Huizhou plant as of December 31, 2011.

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

**21. Segment information**

The Company uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. Management, including the chief operating decision maker, reviews operating results solely by monthly revenue (but not by sub-product type or geographic area) and operating results of the Company and, as such, the Company has determined that the Company has one operating segment.

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

	<i>For the year ended December 31,</i>	
	<u>2012</u>	<u>2011</u>
	\$	\$
<b><i>Net sales</i></b>		
China (including Hong Kong)	55,427,151	57,419,747
Asia, others	14,690,026	8,068,622
Europe	26,782,320	30,146,693
North America	14,639,386	14,472,669
South America	526,851	159,502
Africa	204,632	182,381
Others	378,339	150,863
	<u>112,648,705</u>	<u>110,600,477</u>
	<u>December 31,</u>	<u>December 31,</u>
	2012	2011
	\$	\$
<b><i>Accounts receivable</i></b>		
China (including Hong Kong)	15,575,555	14,359,354
Asia, others	2,435,129	740,289
Europe	5,537,976	4,973,601
North America	1,632,644	1,036,100
South America	97,097	18,950
Africa	35,164	1,124
Others	10,334	-
	<u>25,323,899</u>	<u>21,129,418</u>

**22. Subsequent events**

The Company has evaluated subsequent events through the issuance of the consolidated financial statements and no subsequent event is identified.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

Private and Confidential

Our Reference: (6400101110092)

29th August 2012

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

Dear Sirs,

**Re: Banking Facility up to a limit of USD2,600,000**  
**Borrower: Hong Kong Highpower Technology Company Limited**

We are pleased to offer the banking/credit facility(ies) as described in this letter (“**Facility Letter**”) to you subject to the provisions herein contained this Facility Letter and in the Appendix (“**Appendix**”) hereof. Please note that the Appendix forms an integral part of this Facility Letter, which is intended to set out all the terms and provisions of the said Facility.

1. **Bank**

The Shanghai Commercial & Savings Bank, Ltd., Hong Kong Branch, whose registered office is situated at 10/F, Peninsula Office Tower, 18 Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong (including its successors and assigns) (the “**Bank**”).

2. **Borrower**

Hong Kong Highpower Technology Company Limited (Company No.: 851928) whose registered office is situated at Unit 12, 15/F Technology Park, 18 On Lai Street, Shek Mun Street, Shek Mun, Shatin, N.T. (the “**Borrower**”).

3. **Facility Type and Amount**

A Revolving Short-term Secured Loan Facility

Limit: US Dollars Two Million and Six Hundred Thousand (USD2,600,000)

Unless otherwise agreed by the Bank, the Borrower shall ensure that the total outstanding amount of the Facility shall not exceed the Facility Limit.

The Facility Limit is subject to our customary periodic review, normally on an annual basis. In any event, the Bank may at any time modify or reduce the Facility Limit.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

4. **Interest**

Interest is to be charged at 1.1% p.a. above 1-Month LIBOR or at a rate not to be less than our cost of funds.

Interest is payable monthly commencing one month after the drawdown date or at the due date, whichever is earlier.

The LIBOR is subject to change. The interest rate of the Facility shall be changed automatically and immediately upon the change of the LIBOR without any notice from the Bank to the Borrower.

5. **Drawdown**

The Borrower shall give notice to the Bank no later than 2 business days before the day it requires drawdown. The notice of drawdown referred herein shall be in such form and content to be determined by the Bank in its absolute discretion.

6. **Repayment**

Subject to the Bank's overriding right of withdrawal and forthwith repayment on demand, all the outstanding liabilities under the Facility shall be repaid by 29th August 2013.

7. **Conditions Precedent**

The availability of the Facility is subject to and conditional upon due and complete fulfillment of all of the following conditions :-

- (a) delivery of certified true copies of the Certificate of Incorporation and Memorandum and Articles of Association (or equivalent constitutional documents) of the Borrower(s);
- (b) delivery of appropriate supporting board minutes and/or shareholders' resolutions in a form acceptable to the Bank;
- (c) the Bank's standard Deed of Charge on Account duly executed by the Chargor; and
- (d) the Bank's standard General Letter of Hypothecation duly executed by the Borrower(s); and
- (e) such other documents, items or evidence (all in a form acceptable to the Bank) as the Bank may require.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

8. **Nature and Term of the Facility**

Subject to the Bank's overriding right of withdrawal and forthwith repayment on demand, the term of the Facility shall be for a period up to 29th August 2013.

We must stress that notwithstanding anything contained in this Facility Letter, the Bank shall be entitled at any time in its absolute discretion to cancel or withdraw the Facility and/or to demand immediate repayment or payment (as the case may be) of all principal, interest, fees and other amounts outstanding under this Facility Letter (the "**Facility Liabilities**") (whereupon the Facility shall be so cancelled or withdrawn and/or the Facility Liabilities shall be immediately so payable).

The Facility is also subject to our customary periodic review, normally on an annual basis. In any event, the Bank may at any time cancel the outstanding commitment in respect of any undrawn portion of the Facility.

It should be noted that approval of advance to the Borrower under any of the Facility may in our sole and absolute discretion, be varied, withdrawn or suspended at any time before any such advance is in fact made notwithstanding any purported acceptance by the Borrower hereunder or the signing/execution of any Facility Letter and security documents by the Borrower in favour of us.

9. **Security Documents**

**Charge on Account**

A Deed of Charge on Account (the "**Charge on Account**") in respect of Fixed Deposit held with the Bank in our name for a total amount of not less than USD2,600,000 (or 100% of the Facility Amount) is to be furnished by Hong Kong Highpower Technology Company Limited (the "**Chargor**") in favour of the Bank to secure all moneys due or owing by the Borrower to the Bank under this Facility Letter. The Charge on Deposit shall be in such form and content to be determined by the Bank in its absolute discretion.

**Note: If RMB Fixed Deposit is furnished to secure the Facility, the loan(s) can only be drawn up to 90% of the amount of the RMB Fixed Deposit(s). The Bank is to review the exchange rate of RMB/USD on a monthly basis. If the loan-to-value ratio at any time exceeded 95%, the borrower is to furnish to the Bank additional Fixed Deposit or to partially repay the outstanding liabilities so as to maintain the loan-to-value ratio at 90% or below within one week. Otherwise, the Bank is to exercise its right to set-off the Fixed Deposit for repaying the outstanding liabilities due to the Bank.**

The Charge on Account shall be referred to herein below as the "**Collateral**".

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

Please indicate your acceptance of the Facility by signing and returning the enclosed duplicate of this Facility Letter, which should be duly signed by you and the relevant party(ies) (if any) within 30 days hereof to evidence your understanding, failing which the offer in this Facility Letter will lapse (unless otherwise agreed by our Bank).

Yours faithfully,  
For and on behalf of  
The Shanghai Commercial & Savings  
Bank, Ltd., Hong Kong Branch

/s/ [illegible signature] /s/ [illegible signature]

Authorized Signatures

We agree to accept the Facility and be bound by all the terms and conditions as the Borrower.

/s/ Dangyu Pan

Borrower: Hong Kong Highpower Technology Company Limited

Date:

Note: The Borrower should note that the Bank has during the credit approval process obtained and considered a credit report on the Borrower from the credit reference agency – Dun & Bradstreet (HK) Limited. In this regard, the Borrower may wish to contact the credit reference agency (Tel No. 2516 1100) directly for enquiry. The Bank may in future access the Borrower's data held with the credit reference agency for the purpose of reviewing the facility and such reviews are common and in the normal course of events take place one or more times each year.



**APPENDIX**

**Definitions and Interpretation**

“**HIBOR**” means the annual rate of interest applicable for each interest period in respect of an advance determined conclusively, in the absence of manifest error, by the Bank to be the rate (rounded up, if necessary, to the nearest integral multiple 1/16 per cent.) at which Hong Kong dollar deposits in amounts comparable to the amount of the advance are offered by the Bank for that interest period to prime banks in the Hong Kong inter-bank market at or about 11:00 a.m. (Hong Kong time) on the first day of that interest period;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“**LIBOR**” means the annual rate of interest applicable for each interest period in respect of an advance determined conclusively, in the absence of manifest error, by the Bank to be the rate (rounded up, if necessary, to the nearest integral multiple 1/16 per cent.) at which United States dollar deposits in amounts comparable to the amount of the advance are offered by the Bank for that interest period to prime banks in the London inter-bank market at or about 11:00 a.m. (London time) on the first day of that interest period;

“**Prime Rate**” means Hong Kong dollar prime lending rate as announced, quoted or applied by the Bank from time to time and subject to fluctuation at its discretion;

**General Terms and Conditions**

1. **Interest Rate Calculation Basis**

1.1 Interest shall be computed on the basis of a 365 day year for Hong Kong dollar Facilities and 360 day year for Facilities in other currencies.

2. **Overdue Interest**

2.1 4% per annum over the interest rate as set out in paragraph 4 of the Facility Letter subject to change at our discretion.

3. **Interest and Repayment on Overdraft facility (“O/D”)**

3.1 O/D is repayable on demand. Interest is to be accrued on a daily basis but payable monthly in arrears to the debit of the Borrower’s Current Account on the 21st day (or the next business day if it is a holiday) of each and every calendar month. Any O/D in excess of the agreed limit is subject to approval at our discretion. Interest on such excess amount is to be charged at such rate as the Bank may from time to time determine on a daily basis which is currently at Prime Rate plus 10% per annum.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

4. **Set-off**

4.1 In the event of default, the Bank have the right to set off any credit balance in other accounts held by the Borrower solely or jointly with other person(s) against the actual or contingent liabilities due to the Bank whether current or otherwise or subject to notice or not.

5. **Expenses**

5.1 Whether or not the legal documentation for the Facilities is executed as contemplated, all expenses, commissions, legal costs, fees, stamp duties, insurance premiums, property valuation fees, documentation costs, out-of-pocket expenses and any other expenses reasonably incurred in connection with the Facilities including, without limitation, the preparation, execution and/or enforcement of the relative security documents shall be for the Borrower's account and borne by the Borrower and shall be payable on demand.

6. **Forced Liquidation**

6.1 If the total outstanding amount under the Facility shall exceed [80]% of the market value of the Collateral, the Borrower shall, on demand by the Bank, make partial prepayment of the Facility in the sum equal to the amount of the total outstanding amount under the Facility exceeding [80]% of the market value of the Collateral to the extent that the remaining total outstanding amount under the Facility (after the aforesaid partial prepayment) shall not exceed [80]% of the market value of the Collateral. The market value of the Collateral shall be determined by the Bank in its absolute discretion and the determination of the Bank on the market value of the Property shall be final and conclusive and be binding on the Borrower.

7. **Debt Collection Agencies**

7.1 When necessary and at the Bank's discretion, debt collection agencies may be appointed to recover any overdue amount due to the Bank by the Borrower. The Borrower are required to indemnify the Bank for the reasonable costs and expenses incurred in the debt recovery process.

8. **Availability Period of The Facility**

8.1 The Facility will be available for 3 months from the date of this Facility Letter unless further extension is agreed by the Bank in writing. After the expiration of the said 3 months period, the Facility shall automatically become lapsed and be terminated.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

9. **Increased Costs**

9.1 If any change in, or in the interpretation of or compliance with, any law or regulation subjects the Bank to tax in respect of sums payable by the Borrower hereunder (other than tax on the Bank's overall net income), or increases the Bank's cost of making available or maintaining the Facility or reduces the amount of any payment receivable by the Bank hereunder, then the Borrower will pay the Bank on demand all amounts needed to compensate the Bank therefor.

10. **Representations and Warranties**

10.1 The Borrower represents and warrants to the Bank that:

- (a) the Borrower has full capacity and legal right to enter into and engage in the transactions contemplated by this Facility Letter and this Facility Letter constitutes legal, valid and binding obligations of the Borrower in accordance with its terms;
- (b) neither the borrowing of the Facility nor the performance by the Borrower of its obligations hereunder will conflict with any obligation applicable to the Borrower or result in or oblige the Borrower to create any encumbrance on any of its property; and
- (c) there are no pending or, to the best of the knowledge and belief of the Borrower, threatened actions or proceedings before any court, arbitrator, administrative tribunal or governmental authority which might materially and adversely affect the business, assets or condition (financial or otherwise) or operations of the Borrower or its ability to perform its obligations hereunder.

11. **Events of Default**

11.1 The Bank may by written notice to the Borrower declare the amount of the Facility outstanding, accrued interest thereon and all other sums payable hereunder to be, whereupon the same shall become, immediately due and payable if any of the following events of default occurs :-

- (a) the Borrower fails to pay any sum payable hereunder on the due date;
- (b) the Borrower fails to perform any other of its obligations hereunder and, in respect only of a failure which is in the Bank's opinion capable of remedy, does not remedy such failure within seven (7) days after receipt of written notice from the Bank requiring it to do so;
- (c) any representation or warranty made by the Borrower in this Facility Letter is or proves to have been untrue or inaccurate in any material respect;
- (d) the Borrower (being individual) dies or commits an act of bankruptcy;

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

- (e) if any Shareholder (being a company) commits an act to go into voluntary liquidation or reconstruction or amalgamation; and
- (f) any situation occurs which in the opinion of the Bank may materially and adversely affect the ability of the Borrower to perform its obligations under this Facility Letter.

12. **Indemnity**

- 12.1 The Borrower shall indemnify the Bank against all losses, liabilities, damages and expenses which the Bank may sustain or incur as a consequence of any event of default hereunder or any default by the Borrower in the performance of its obligations hereunder. The Bank is entitled to employ, engage and appoint lawyers, debt collection agents or third party service providers to demand, request, recover and collect any money from time to time outstanding from the Borrower to the Bank under this Facility Letter and/or incurred consequence of any default by the Borrower in the performance of its obligations hereunder. The Borrower hereby agrees to pay and indemnify the Bank on full indemnity basis all the costs, expenses, charges, fees, commissions and service charges incurred by or charged against the Bank in relation to the employment, engagement and appointment of such lawyers, debt collection agents or third party service providers. The Borrower's attention is specifically drawn to the provisions of this Clause which may involve the Borrower in incurring additional costs and expenses.

13. **Payments**

- 13.1 The Borrower shall make all payments under this Facility Letter in immediately available funds by [\*] a.m. (Hong Kong time) on the due day by such method as the Bank and the Borrower may agree.

14. **Assignment**

- 14.1 The Bank is entitled to assign or transfer all or any of its rights or transfer any of its obligations hereunder without the consent of the Borrower. The Borrower shall not assign any of its rights or transfer any of its obligations hereunder.

15. **Notices**

- 15.1 Any notice or demand given or made in connection with this Facility Letter shall be sent to the Bank or the Borrower, as the case may be, at its address given above or such other address as the relevant party may from time to time notify to the other. Notices shall be in writing and made by letter, telex or facsimile.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

16. **Policy on Personal Data**

16.1 The policies and practices of the Bank in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486, Laws of Hong Kong) are set out in the Circular to Customers and Other Individuals relating to the Personal Data (Privacy) Ordinance attached to this Facility Letter. The said policies and practices form an integral part of this Facility Letter and shall be deemed incorporated into this Facility Letter accordingly.

17. **Miscellaneous Provisions**

17.1 Where there is any conflict between the provisions in this Facility Letter and the other terms and conditions previously delivered to the Borrower by the Bank, the provisions herein shall prevail.

17.2 Section 83 of the Banking Ordinance (Chapter 155, Laws of Hong Kong, the “**Ordinance**”) has imposed on the Bank as a bank certain limitations on advances to persons or companies related to the Bank’s directors or employees. In acknowledging this Facility Letter the Borrower should advise the Bank whether the Borrower is in any way related to any of the Bank’s directors or employees within the meaning of the Ordinance and in the absence of such advice the Bank will assume that the Borrower is not so related. The Borrower shall advise the Bank immediately in writing should it becomes so related subsequent to acknowledging this Facility Letter.

17.3 Upon signing the duplicate of this Facility Letter, the Borrower consents to the Bank on providing to any guarantor or security provider in respect of any Facility or credit facilities extended to Borrower:

- (a) a copy of this Facility Letter evidencing the obligations to be guaranteed or secured or a summary thereof;
- (b) a copy of any formal demand for overdue payment which is sent to the Borrower after it has failed to settle an overdue amount following a customary reminder; and

from time to time on request by the guarantor or security provider, a copy of the latest statement of account provided to the Borrower.

17.4 If it becomes unlawful for the Bank to give effect to its obligations hereunder, it shall notify the Borrower in writing and the Borrower shall, within such period as may be permitted by the relevant law, repay the principal together with all interest accrued thereon to the date of repayment and other monies then payable hereunder.

17.5 If any provision herein becomes illegal, invalid or unenforceable then the remaining provisions of this Facility Letter shall not be affected or impaired thereby.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

17.6 No failure or delay by the Bank in exercising any right, power or remedy hereunder shall operate as a waiver thereof. Rights, powers and remedies available under this Facility Letter do not exclude those provided by law.

18. **Language**

18.1 The Chinese version of the Facility Letter (including this Appendix) is for reference only and if there is any conflict between the English and Chinese versions, the English version shall prevail.

19. **Governing Law and Jurisdiction**

19.1 This Facility Letter and the Facility shall be governed by and construed in accordance with the laws of Hong Kong.

19.2 The parties hereto irrevocably submit to the non-exclusive jurisdiction of the courts of Hong Kong.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

Private and Confidential

Our Reference: 600101110093

7th September 2012

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

Dear Sirs,

**Re: Banking Facility up to a limit of USD6,000,000**  
**Borrower: Hong Kong Highpower Technology Company Limited**

We are pleased to offer the banking/credit facility(ies) as described in this letter (“**Facility Letter**”) to you subject to the provisions herein contained this Facility Letter and in the Appendix (“**Appendix**”) hereof. Please note that the Appendix forms an integral part of this Facility Letter, which is intended to set out all the terms and provisions of the said Facility.

1. **Bank**

The Shanghai Commercial & Savings Bank, Ltd., Hong Kong Branch, whose registered office is situated at 10/F, Peninsula Office Tower, 18 Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong (including its successors and assigns) (the “**Bank**”).

2. **Borrower**

Hong Kong Highpower Technology Company Limited (Company No.: 851928) whose registered office is situated at Unit 12, 15/F Technology Park, 18 On Lai Street, Shek Mun Street, Shek Mun, Shatin, N.T. (the “**Borrower**”).

3. **Facility Type and Amount**

A Revolving Short-term Secured Loan Facility

Limit: US Dollars Six Million (USD6,000,000)

**Note:-**

- i. **The Revolving Short-term Secured Loan Facility is to be granted against the Standby Letter of Credit issued by China CITIC Bank and acceptable to the Bank.**

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

- ii. **If Standby Letter of Credit in RMB is furnished to secure the Facility, the loan(s) can only be drawn up to 90% of the amount of the RMB amount. The Bank is to review the exchange rate of RMB/USD on a monthly basis. If the loan-to-value ratio at any time exceeded 95%, the borrower is to furnish to the Bank additional Fixed Deposit or to partially repay the outstanding liabilities so as to maintain the loan-to-value ratio at 90% or below within one week. Otherwise, the Bank is to exercise its right to set-off the Fixed Deposit for repaying the outstanding liabilities due to the Bank.**

Unless otherwise agreed by the Bank, the Borrower shall ensure that the total outstanding amount of the Facility shall not exceed the Facility Limit.

The Facility Limit is subject to our customary periodic review, normally on an annual basis. In any event, the Bank may at any time modify or reduce the Facility Limit.

4. **Interest**

Interest is to be charged at **2% p.a. above 6-Month LIBOR** or **1.85% p.a. above 6-Month TAIFX**, whichever is higher, but in any event not less than our cost of funds.

Interest is payable monthly commencing one month after the drawdown date or at the due date, whichever is earlier.

“TAIFX” means the annual rate of interest applicable for each interest period in respect of an advance as published by Taipei Forex Inc. and determined in the absence of manifest error, by the Bank to be the rate (rounded up, if necessary, to the nearest integral multiple of 1/16 per cent) at which the United States Dollar deposits in amount comparable to the amount of the advance are offered by the Bank for that interest period to other banks in the Taiwan inter-bank market on the first day of that interest period.

The LIBOR and TAIFX are subject to change. The interest rate of the Facility shall be changed automatically and immediately upon the change of the LIBOR and/or TAIFX without any notice from the Bank to the Borrower.

5. **Facility Fee**

A facility fee of USD15,000 will be charged.

6. **Drawdown**

The Borrower shall give notice to the Bank no later than 2 business days before the day it requires drawdown. The notice of drawdown referred herein shall be in such form and content to be determined by the Bank in its absolute discretion.



THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

7. **Repayment**

Subject to the Bank's overriding right of withdrawal and forthwith repayment on demand, all the outstanding liabilities under the Facility shall be repaid by 6th September 2013.

8. **Conditions Precedent**

The availability of the Facility is subject to and conditional upon due and complete fulfillment of all of the following conditions :-

- (a) delivery of certified true copies of the Certificate of Incorporation and Memorandum and Articles of Association (or equivalent constitutional documents) of the Borrower(s);
- (b) delivery of appropriate supporting board minutes and/or shareholders' resolutions in a form acceptable to the Bank;
- (c) the General Letter of Hypothecation; and
- (d) such other documents, items or evidence (all in a form acceptable to the Bank) as the Bank may require.

9. **Nature and Term of the Facility**

Subject to the Bank's overriding right of withdrawal and forthwith repayment on demand, the term of the Facility shall be for a period of 12 months from 6th September 2012.

We must stress that notwithstanding anything contained in this Facility Letter, the Bank shall be entitled at any time in its absolute discretion to cancel or withdraw the Facility and/or to demand immediate repayment or payment (as the case may be) of all principal, interest, fees and other amounts outstanding under this Facility Letter (the "**Facility Liabilities**") (whereupon the Facility shall be so cancelled or withdrawn and/or the Facility Liabilities shall be immediately so payable).

The Facility is also subject to our customary periodic review, normally on an annual basis. In any event, the Bank may at any time cancel the outstanding commitment in respect of any undrawn portion of the Facility.

It should be noted that approval of advance to the Borrower under any of the Facility may in our sole and absolute discretion, be varied, withdrawn or suspended at any time before any such advance is in fact made notwithstanding any purported acceptance by the Borrower hereunder or the signing/execution of any Facility Letter and security documents by the Borrower in favour of us.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

Please indicate your acceptance of the Facility by signing and returning the enclosed duplicate of this Facility Letter, which should be duly signed by you and the relevant party(ies) (if any) within 30 days hereof to evidence your understanding, failing which the offer in this Facility Letter will lapse (unless otherwise agreed by our Bank).

Yours faithfully,  
For and on behalf of  
The Shanghai Commercial & Savings  
Bank, Ltd., Hong Kong Branch

---

Authorized Signatures

We agree to accept the Facility and be bound by all the terms and conditions as the Borrower.

In addition, we hereby represent, declare and undertake to the Bank that the utilization of any of the Facility or use of proceeds drawn under this Facility Letter do not and will not conflict with any law or regulation applicable to us (including and without limitation those in force in the Mainland). The above representation and declaration to be made by us by reference to the facts then existing during the period where the Facility or any part thereof remains outstanding.

---

Borrower: Hong Kong Highpower Technology Company Limited

Date:

Note: The Borrower should note that the Bank has during the credit approval process obtained and considered a credit report on the Borrower from the credit reference agency - Dun & Bradstreet (HK) Limited. In this regard, the Borrower may wish to contact the credit reference agency (Tel No. 2516 1100) directly for enquiry. The Bank may in future access the Borrower's data held with the credit reference agency for the purpose of reviewing the facility and such reviews are common and in the normal course of events take place one or more times each year.

**APPENDIX**

**Definitions and Interpretation**

“**HIBOR**” means the annual rate of interest applicable for each interest period in respect of an advance determined conclusively, in the absence of manifest error, by the Bank to be the rate (rounded up, if necessary, to the nearest integral multiple 1/16 per cent.) at which Hong Kong dollar deposits in amounts comparable to the amount of the advance are offered by the Bank for that interest period to prime banks in the Hong Kong inter-bank market at or about 11:00 a.m. (Hong Kong time) on the first day of that interest period;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“**LIBOR**” means the annual rate of interest applicable for each interest period in respect of an advance determined conclusively, in the absence of manifest error, by the Bank to be the rate (rounded up, if necessary, to the nearest integral multiple 1/16 per cent.) at which United States dollar deposits in amounts comparable to the amount of the advance are offered by the Bank for the interest period to prime banks in the London inter-bank market at or about 11:00 a.m. (London time) on the first day of the interest period;

“**Prime Rate**” means Hong Kong dollar prime lending rate as announced, quoted or applied by the Bank from time to time and subject to fluctuation at its discretion;

**General Terms and Conditions**

1. **Interest Rate Calculation Basis**

1.1 Interest shall be computed on the basis of a 365 day year for Hong Kong dollar Facilities and 360 day year for Facilities in other currencies.

2. **Overdue Interest**

2.1 4% per annum over the interest rate as set out in paragraph 4 of the Facility Letter subject to changes at our discretion.

3. **Interest and Repayment on Overdraft facility (“O/D”)**

3.1 O/D is repayable on demand. Interest is to be accrued on a daily basis but payable monthly in arrears to the debit of the Borrower’s Current Account on the 21<sup>st</sup> day (or the next business day if it is a holiday) of each and every calendar month. Any O/D in excess of the agreed limit is subject to approval at our discretion. Interest on such excess amount is to be charged at such rate as the Bank may from time to time determine on a daily basis which is currently at Prime Rate plus 10% per annum.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

4. **Set-off**

4.1 In the event of default, the Bank have the right to set off any credit balance in other accounts held by the Borrower solely or jointly with other person(s) against the actual or contingent liabilities due to the Bank whether current or otherwise or subject to notice or not.

5. **Expenses**

5.1 Whether or not the legal documentation for the Facilities is executed as contemplated, all expenses, commissions, legal costs, fees, stamp duties, insurance premiums, property valuation fees, documentation costs, out-of-pocket expenses and any other expenses reasonably incurred in connection with the Facilities including, without limitation, the preparation, execution and/or enforcement of the relative security documents shall be for the Borrower's account and borne by the Borrower and shall be payable on demand.

6. **Forced Liquidation**

6.1 If the total outstanding amount under the Facility shall exceed [80]% of the market value of the Collateral, the Borrower shall, on demand by the Bank, make partial prepayment of the Facility in the sum equal to the amount of the total outstanding amount under the Facility exceeding [80]% of the market value of the Collateral to the extent that the remaining total outstanding amount under the Facility (after the aforesaid partial prepayment) shall not exceed [80]% of the market value of the Collateral. The market value of the Collateral shall be determined by the Bank in its absolute discretion and the determination of the Bank on the market value of the Property shall be final and conclusive and be binding on the Borrower.

7. **Debt Collection Agencies**

7.1 When necessary and at the Bank's discretion, debt collection agencies may be appointed to recover any overdue amount due to the Bank by the Borrower. The Borrower are required to indemnify the Bank for the reasonable costs and expenses incurred in the debt recovery process.

8. **Availability Period of The Facility**

8.1 The Facility will be available for 3 months from the date of this Facility Letter unless further extension is agreed by the Bank in writing. After the expiration of the said 3 months period, the Facility shall automatically become lapsed and be terminated.

9. **Increased Costs**

9.1 If any change in, or in the interpretation of or compliance with, any law or regulation subjects the Bank to tax in respect of sums payable by the Borrower hereunder (other than tax on the Bank's overall net income), or increases the Bank's cost of making available or maintaining the Facility or reduces the amount of any payment receivable by the Bank hereunder, then the Borrower will pay the Bank on demand all amounts needed to compensate the Bank therefor.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

10. **Representations and Warranties**

10.1 The Borrower represents and warrants to the Bank that:

- (a) the Borrower has full capacity and legal right to enter into and engage in the transactions contemplated by this Facility Letter and this Facility Letter constitutes legal, valid and binding obligations of the Borrower in accordance with its terms;
- (b) neither the borrowing of the Facility nor the performance by the Borrower of its obligations hereunder will conflict with any obligation applicable to the Borrower or result in or oblige the Borrower to create any encumbrance on any of its property; and
- (c) there are no pending or, to the best of the knowledge and belief of the Borrower, threatened actions or proceedings before any court, arbitrator, administrative tribunal governmental authority which might materially and adversely affect the business, assets or condition (financial or otherwise) or operations of the Borrower or its ability to perform its obligations hereunder.

11. **Events of Default**

11.1 The Bank may by written notice to the Borrower declare the amount of the Facility outstanding, accrued interest thereon and all other sums payable hereunder to be, whereupon the same shall become, immediately due and payable if any of the following events of default occurs :-

- (a) the Borrower fails to pay any sum payable hereunder on the due date;
- (b) the Borrower fails to perform any other of its obligations hereunder and, in respect only of a failure which is in the Bank's opinion capable of remedy, does not remedy such failure within seven (7) days after receipt of written notice from the Bank requiring it to do so;
- (c) any representation or warranty made by the Borrower in this Facility Letter is or proves to have been untrue or inaccurate in any material respect;
- (d) the Borrower (being individual) dies or commits an act of bankruptcy;
- (e) if any Shareholder (being a company) commits an act to go into voluntary liquidation or reconstruction or amalgamation; and

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

- (f) any situation occurs which in the opinion of the Bank may materially and adversely affect the ability of the Borrower to perform its obligations under this Facility Letter.

12. **Indemnity**

- 12.1 The Borrower shall indemnify the Bank against all losses, liabilities, damages and expenses which the Bank may sustain or incur as a consequence of any event of default hereunder or any default by the Borrower in the performance of its obligations hereunder.
- 12.2 The Bank is entitled to employ, engage and appoint lawyers, debt collection agents or third party service providers to demand, request, recover and collect any money from time to time due and outstanding from the Borrower to the Bank under this Facility Letter and/or incurred as a consequence of any default by the Borrower in the performance of its obligations hereunder. The Borrower hereby agrees to pay and indemnify the Bank on full indemnity basis all the costs, expenses, charges, fees, commissions and service charges incurred by or charged against the Bank in relation to the employment, engagement and appointment of such lawyers, debt collection agents or third party service providers. The Borrower's attention is specifically drawn to the provisions of this Clause which may involve the Borrower in incurring additional costs and expenses.

13. **Payments**

- 13.1 The Borrower shall make all payments under this Facility Letter in immediately available funds by [\*] a.m. (Hong Kong time) on the due day by such method as the Bank and the Borrower may agree.

14. **Assignment**

- 14.1 The Bank is entitled to assign or transfer all or any of its rights or transfer any of its obligations hereunder without the consent of the Borrower. The Borrower shall not assign any of its rights or transfer any of its obligations hereunder.

15. **Notices**

- 15.1 Any notice or demand given or made in connection with this Facility Letter shall be sent to the Bank or the Borrower, as the case may be, at its address given above or such other address as the relevant party may from time to time notify to the other. Notices shall be in writing and made by letter, telex or facsimile

16. **Policy on Personal Data**

- 16.1 The policies and practices of the Bank in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486, Laws of Hong Kong) are set out in the Circular to Customers and Other Individuals relating to the Personal Data (Privacy) Ordinance attached to this Facility Letter. The said policies and practices form an integral part of this Facility Letter and shall be deemed incorporated into this Facility Letter accordingly.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

17. **Miscellaneous Provisions**

- 17.1 Where there is any conflict between the provisions in this Facility Letter and the other terms and conditions previously delivered to the Borrower by the Bank, the provisions herein shall prevail.
- 17.2 Section 83 of the Banking Ordinance (Chapter 155, Laws of Hong Kong, the “**Ordinance**”) has imposed on the Bank as a bank certain limitations on advances to persons or companies related to the Bank’s directors or employees. In acknowledging this Facility Letter the Borrower should advise the Bank whether the Borrower is in any way related to any of the Bank’s directors or employees within the meaning of the Ordinance and in the absence of such advice the Bank will assume that the Borrower is not so related. The Borrower shall advise the Bank immediately in writing should it becomes so related subsequent to acknowledging this Facility Letter.
- 17.3 Upon signing the duplicate of this Facility Letter, the Borrower consents to the Bank on providing to any guarantor or security provider in respect of any Facility or credit facilities extended to Borrower:
- (a) a copy of this Facility Letter evidencing the obligations to be guaranteed or secured or a summary thereof;
  - (b) a copy of any formal demand for overdue payment which is sent to the Borrower after it has failed to settle an overdue amount following a customary reminder; and
- from time to time on request by the guarantor or security provider, a copy of the latest statement of account provided to the Borrower.
- 17.4 If it becomes unlawful for the Bank to give effect to its obligations hereunder, it shall notify the Borrower in writing and the Borrower shall, within such period as may be permitted by the relevant law, repay the principal together with all interest accrued thereon to the date of repayment and other monies then payable hereunder.
- 17.5 If any provision herein becomes illegal, invalid or unenforceable then the remaining provisions of this Facility Letter shall not be affected or impaired thereby.
- 17.6 No failure or delay by the Bank in exercising any right, power or remedy hereunder shall operate as a waiver thereof. Rights, powers and remedies available under this Facility Letter do not exclude those provided by law.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

18. **Language**

18.1 The Chinese version of the Facility Letter (including this Appendix) is for reference only and if there is any conflict between the English and Chinese versions, the English version shall prevail.

19. **Governing Law and Jurisdiction**

19.1 This Facility Letter and the Facility shall be governed by and construed in accordance with the laws of Hong Kong.

19.2 The parties hereto irrevocably submit to the non-exclusive jurisdiction of the courts of Hong Kong.



THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

Private and Confidential

Our Reference: 6400101120048 and 6400101120055

11th December 2012

Hong Kong Highpower Technology Company Limited  
Unit 12, 15/F Technology Park,  
18 On Lai Street, Shek Mun,  
Satin, N.T.

Dear Sirs,

**Revised Revolving Banking Facilities**

**Borrower: Hong Kong Highpower Technology Company Limited**

We refer to our previous Facility Letters dated 31st July 2012 (Our reference: 6400101120030) and 7th September 2012 (Our reference: 6400101110093) respectively to you, and are pleased to revise the terms and conditions of our banking facilities contained therein with immediate effect as follows:

1. **Facilities and Amount**

<u>Ref:</u>	<u>Facility Limit</u>	<u>New Facility Type</u>
6400101120030	USD4,000,000	<b>Non-revolving Secured Loan Facility</b>
6400101110093	USD6,000,000	<b>Non-revolving Secured Loan Facility</b>

2. **Interest**

<u>Ref:</u>	<u>Facility Limit</u>	<u>New Interest Rate</u>
640010110093	USD6,000,000	<b>6-Month LIBOR + 1.5% p.a. or 6-Month TAIEX + 1.25% p.a., whichever is higher, but in any event not to be less than our cost of funds</b>

All the other terms and conditions of the aforesaid banking facilities are to remain unchanged.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.  
hong kong branch  
(incorporated in taiwan with limited liability)

Please indicate your acceptance of this Revised Facility Letter by signing and returning the enclosed duplicate, which should be duly signed by you and the relevant party(ies) (if any) within 14 days hereof to evidence your understanding, failing which the offer in this Revised Facility Letter will lapse (unless otherwise agreed by our Bank).

Yours faithfully,  
For and on behalf of  
The Shanghai Commercial & Savings  
Bank, Ltd., Hong Kong Branch

/s/ [illegible signature] /s/ [illegible signature]  
Authorized Signatures

We agree to accept the Facility and be bound by all the terms and conditions as the Borrower.

/s/ Dangyu Pan

Borrower: Hong Kong Highpower Technology Company Limited

Date:

Witnessed by:  
at

Shenzhen Development Bank, Branch of Shenzhen

# Comprehensive Credit Line Contract

Shenzhen Development Bank

Version of July, 2009

---

## Comprehensive Credit Line Contract

Reference No. : Shenfa Shenxinzhou zong zi di 20121207004

Party A: Shenzhen Development Bank, Xinzhou Branch  
Address: Zhongcheng Tianyi Garden, Xinzhou Road, Futian District, Shenzhen City  
Office number: 2348 0000 Fax: 2348 0005  
Person in charge: Li Jing Position: Branch President

Party B: Shenzhen Highpower Technology Co, Ltd.  
Address: Building A2, Luoshan Industrial Zone, Longgang District, Shenzhen  
Legal representative: Dangyu Pan

The parties agree as follow.

### Clause 1 Comprehensive credit line

#### 1. The Amount:

One hundred forty million in Chinese Yuan(CNY)

For loans or credit businesses in currency other than CNY, the currency exchange rates announced by Party A on the date of transaction will be applied.

2. The duration of credit: refers to the period, from 31 July, 2009 to 31 July, 2010 , in which Party A may apply to Party B for recycled use of its comprehensive credit line. The cumulative credit line used by Party A shall not exceed its comprehensive credit line. During the credit period, Party A may recycle the use of each specific credit line. The terminating date of the duration of credit shall not be interpreted as the maturity or expiration date for any one or more specific credit transactions that have already happened

If in the six months starting from November 22, 2012, no loans are issued from Party A to Party B, the contract terminates.

### Clause 2 On Lending Arrangement

Not Applicable

Clause 3 This contract is constructed based on laws of the People's Republic of China, and the execution of the contract is applicable to the law of the People's Republic of China. Where there is a dispute, both parties should negotiate to seek a solution; if the parties fail to resolve the dispute through negotiation, a lawsuit should be filed with the court where Party A is located.

---

Clause 4 Mandatory Implementation against property  
Not Applicable

Clause 5 Other issues agreed by both parties:

- 1) When specific Credit Line was used as bank acceptance or commercial acceptance bills, full deposit is requested at least a month in advance, or Party A will be entitled to deem the credit line terminated;
- 2) during the period of credit line, Party B cannot announce bonus distribution, or Party A will be entitled to deem the credit line terminated.

Clause 6 This contract will be printed and signed in three copies, Party A holds two copies, Party B holds one copy, each copy has the same legal effect

Clause 7 Specific Credit Line

The way of comprehensive credit amount includes but is not limited to the following ways: Loans, bill acceptance and discount, overdraft, finance and insurance, guarantee, loan commitment, letter of credit, etc.

Name of the specific credit line shall be determined by each business product presented in the specific business contract.

Specific credit line should be in accordance with those specified in the individual business contract signed by both parties.

Clause 8 Application of the Specific Credit Line

During the credit period, Party B shall apply for the use of specific credit lines, after Party A processed and approved the application, Party A and Party B shall sign specific business contracts for specific business transactions.

Clause 9 Party B's commitments

1. Party B is a well established company legally set up and operates in its jurisdiction, Party B has full authorization of the company and operates the business within the scope legally registered in the government authorities.
  2. Party B legally possessed the power, rights and authorizations for signing, delivering and executing this contract. The covenants in this contract are able to form effective binding and execution towards Party B.
  3. Party B should guarantee the truth, completeness, legitimately and validity for all the documents provided, there are no fake records, misleading statement or significant omission in the documents provided.
-

4. Party B promises herein, Party B will fully perform the burden of the contract in good faith, and will not take any actions before obtaining Party A's written consent that would damage the creditor's rights (those actions including but not limited to performing what should not be performed, or refusing to perform what should be performed).
5. Party B should notify Party A in writing about any changes of its domicile, address, phone of contact as well as scope of business and legal representative. The written notification should be sent within 10 days after the registration. If Party B fails to perform the said notification, all correspondence sent to the original address of Party B by Party A is considered valid.
6. Party B herein confirmed, Party B has full understanding and awareness of all the terms and conditions listed in this contract, and signing this contract is the true expression of Party B's will.

#### Clause 10 Special Agreement regarding Group Credit Customers and Related Party Transactions

##### A. Definition of Group customers:

1. Direct or indirect shareholding control or operational control by other enterprise legal person;
2. Joint control by third party enterprise legal person;
3. Direct or indirect joint control by major investors, key management personnel or their close family members (including immediate families within three generations and collateral relatives within two generations)
4. Having other relationships or connections which might have a negative impact on forming an arm's length transaction, should be deemed as group customer for credit management.

B. Once Party B is identified as a group customer, significant related party transactions (single transaction in amount exceeding 10% of the Net Asset Value) are required to be reported in written form within ten days from the transaction date. The report content should include the participating parties, targets, nature and pricing of the transaction (including valuation of a non-monetary transaction).

#### Clause 11 Breach of Covenant and Default Liabilities

##### A. Breach of Covenant

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

---

1. Party B violates or intends to violate the terms herein or in any supplementary contracts or agreements signed by Party A and Party B regarding the application of specific credit line.
  2. Documents provided by Party B to Party A are untrue, inaccurate, or incomplete, or contain fake records, misleading statements or major omissions.
  3. Party B conceals a significant fact, and does not cooperate with Party A with an investigation, examination and inspection.
  4. Party B has not used the credit funds according to agreed purposes or credit funds were engaged into illegal transactions.
  5. Party B breaches the covenants of other credit line contracts between Party A or third parties (including but not limited to credit line agreements, loan contracts and guarantee contracts) or violates any debt securities issued by Party B, or is involved in any litigation or dispute arising from such contracts and the securities.
  6. The guarantor under this Agreement has violated the Guarantee Contract (including but not limited to guarantee contract, collateral contract, or pledge contract), or the Guarantee Contract is executorial, not effected, or backed out.
  7. Party B has neglected to manage and claim rights for debt dues, transferred or disposed of its main assets for free or at a price significantly lower than the market price, or withdrawn its funds or evaded its debt.
  8. Party B makes fake contracts and transaction arrangements with any third party (including but not limited to a related party of Party B), including but not limited to financing through discounted bills receivables which could not supported by a true and effected transaction.
  9. Party B Intended to evade bank's debt through related party transactions.
  10. Party B is or will be under significant business difficulties or risks: deteriorated financials, significant financial losses and loss of assets (including but not limited asset losses for fulfill guarantee obligations) or other financial crisis.
  11. Party B is subjected to administrative penalty or criminal penalty, or Party B is under an investigation conducted by authorities, which could possibly result in an administrative penalty or criminal penalty from illegal operations.
  12. Party B has undergone significant organizational changes, e.g. business splitting, merger and termination, disposal of major assets, capital reduction, liquidation, reorganization, withdrawal, bankruptcy, and dissolution.
  13. Change of controlling shareholders or de facto control of Party B. If Party A believes the changes have endangered or may endanger the creditor's rights; or Party B's controlling shareholders, de facto control, legal representative or senior management reported significant issues, which include but are not limited to administrative or criminal penalties or investigations by authorities which possibly could lead to an administrative penalty or criminal penalty from illegal operations, has lawsuits, deteriorated financials, bankruptcy or dissolution.
-

14. Adverse changes in the industry in which Party B is engaged, and Party A believes the situation has endangered or may endanger realization of creditor's rights.
15. Party B failed to arrange settlement or deposits in Party A as agreed.
16. In any other occasions or situations relating to Party B has led to or will soon lead to the degrading of Party B's debt-paying ability or the damage to Party A's rights and interests.

**B. Default Liabilities**

If a situation mentioned in the provision A happened, Party A has the right to take any or several of the following measures at that time:

1. Adjustment, cancellation or termination of the comprehensive credit line under this contract, or adjustment of the duration of the credit line.
2. Announce all or part of the obligation under this contract due immediately, request for full or installment repayment from Party B on used amount immediately.
3. Request for additional cover or other measures to protect Party A's legitimate rights and interests.
4. Direct access to Party B and Guarantor's bank account without prior consents for debt pay off for the comprehensive credit line and specific credit line under this contract.
5. Exercise the right of guarantee, request guarantor to perform guaranty obligation or execute to dispose pledges / collaterals.

Clause 12 This Agreement is established and entered into effect upon signing or sealing by the legal representatives (or person-in-charge) of Party A and Party B or their duly authorized agents, together with sealing by the company chop.

Stamp of Party A

/s/ [COMPANY STAMP]

Signature of director or authorized representative

November 22, 2012

Stamp of Party B (if Party B is a corporation)

/s/ [COMPANY STAMP]

Signature of legal representative or authorized representative

November 22, 2012

---



# Guaranty Contract of Maximum Amount

Shenzhen Development Bank  
Version of July, 2009

Guarantee Contract of Maximum Guarantee Amount

---

Contract NO: Shenfa Shenxinzhou ebao zi di 20121207004-02

Party A (Main contract creditor): Shenzhen Development Bank Limited Company, Xinzhou Branch  
Address: Zhongcheng Tianyi Garden, Xinzhou Road, Futian District, Shenzhen City  
Office number: 2348 0000 Fax: 2348 0005  
Person in charge: Li Jing Position: Branch President

Party B (Guarantor):  
Type of certification:  
Certification number:

To ensure execution of the Comprehensive Credit Line Contract (hereinafter referred to as "the Principal Contract") signed between Party A and Shenzhen Highpower Technology Co. Ltd. (hereinafter referred to as "Debtor"), Party B agrees to provide a joint responsibility guarantee to all of the Borrower's obligations hereunder, and WHEREAS, the Lender is willing to provide a short-term revolving credit facility to the Borrower on the terms and conditions set forth herein.

#### **Clause 1 The range of Guarantee**

The range of guarantee includes the principal debts (include contingent liabilities), interest, compound interest, punitive interest, and the cost for realization of the creditor's right under the Debtor as agreed in the "Comprehensive Credit Line Contract" (Shenfa Shenxinzhou ebao zi di 20121207004). The maximum amount of the debt promised to guarantee is one hundred forty million only in Chinese Currency.

The interest, compound interest, punitive interest will be calculated according to the agreements of the Principal Contract, and will be calculated until the date paid off. The cost for realization of the creditor's right includes but is not limited to the announcement fee, delivery fees, appraisal fees, legal fees, travel expenses, assessment fees, auction fees, the property preservation fee, compulsory execution fee and etc.

For loans or credit businesses in currency other than CNY, the currency exchange rates announced by Party A on the date of transaction will be applied.

#### **Clause 2 Period of Guarantee**

The period of guarantee starts from the effective day of the Principal Contract and ends two years after the expiration date of each specific credit line contract under the Principal Contract.

---

During the period of guarantee, if Party A transfers the creditor's rights to a third party according to legal procedure, Party B should continue to assume the guarantee responsibility over the period set forth in this contract.

**Clause 3 On lending arrangements**

Not Applicable

**Clause 4 Other issues**

Not Applicable

**Clause 5 This contract will be printed and signed in two copies, Party A holds one copy, Party B and Debtor holds one copy, each copy has the same legal effect.**

**Clause 6 Mandatory Implementation against property**

Not Applicable

**Clause 7 Definition of Guarantee Responsibilities**

Party B agrees to provide joint guarantee to all the principal debts (including contingent liabilities), interest, compound interest, punitive interest, and the cost for realizing creditor's right within the term of guarantee. If the debtor fails to fulfill the obligation of repayment at the expiration date (including contract expiration date and earlier termination) or there is evidence that Debtor has breached a loan covenant, Party A reserves the right to claim from the Debtor or Party B directly for paying off the debt. Party B irrevocably provides Party A with rights to direct access to Party B's bank account opened with Party A. Once the Debtor fails to repay debt on expiration (including contract expiration and earlier maturity), Party A can directly deduct the amount of due debt from the above bank account.

No matter whether there is or is not real security on the creditor's right provided by Debtor or third parties, Party A reserves the right to request Party B assume guarantee responsibility before any disposal of real security.

**Clause 8 The guarantee responsibility under this contract is an independent guarantee, will not be affected by any guarantee provided by other guarantor.**

**Clause 9 The guarantee under this contract is irrevocable, will not be affected by any other agreements and documents signed by debtor with any other companies or institutions, and will not be changed by any situation changes of Debtor, including but not limited to bankruptcy, insolvency, loss of business qualification, or change of articles of association.**

---

## Clause 10 Breach of Covenant and Default Liabilities

A. Breach of Covenant. Any of the following situations would be considered as breach of contract covenant:

1. Party B violates or intends to violate the terms herein.
  2. Documents provided by Party B to Party A are untrue, inaccurate, or incomplete, or contain fake records, misleading statements or major omissions.
  3. Party B conceals a significant fact, does not cooperate with Party A for an investigation, examination and inspection.
  4. Party B has neglected to manage and claim rights for debt due, transferred or disposed of its main assets for free or at a price significantly lower than the market price, or withdrawn its funds or evaded its debt.
  5. Party B breaches the covenants of other credit line contracts between Party A or third parties (including but not limited to credit line agreements, loan contracts and guarantee contracts) or violates any debt securities issued by Party B, or is involved in any litigation or dispute arising from such contracts and the securities.
  6. The guarantee is defined as nullified or revoked.
  7. When the deadline as set on the principal contract has passed and the Debtor has failed to pay all or part of the debts as set under the Principal Contract.
  8. Party B intended to evade bank's debt through related party transactions.
  9. For Party B as an Enterprise Legal Person:
    - 9.1 Party B is or will be under significant business difficulties or risks: deteriorated financials, significant financial losses and loss of assets (including but not limited asset losses for fulfill guarantee obligations) or other financial crisis.
    - 9.2 . Party B is subjected to an administrative penalty or criminal penalty. Or Party B is under an investigation conducted by authorities, which could possibly result in an administrative penalty or criminal penalty from illegal operations.
    - 9.3 Party B has undergone significant organizational changes, e.g. a business splitting, merger and termination, disposal of major assets, capital reduction, liquidation, reorganization, withdrawal, bankruptcy, and dissolution.
    - 9.4 Change of controlling shareholders or de facto control of Party B, if Party A believes those changes have endangered or may endanger the creditor's rights; or Party B's controlling shareholders, de facto control, legal representative or senior management reported significant issues, which include but are not limited to administrative or criminal penalties or investigations by authorities which could possibly lead to an administrative penalty or criminal penalty from illegal operations, has lawsuits, deteriorated financials, bankruptcy and dissolution.
-

9.5 Adverse changes in the industry in which Party B engaged, and Party A believes the situation has endangered or may endanger realization of the creditor's rights.

10. For Party B as a citizen:

10.1 Any situation changes of Party B, such as disability, unemployment, change of career or change of business operation, which Party A believes have affected or may affect Party B's capability to fulfill the guarantee responsibilities.

10.2 Under any circumstances if Party B was under investigation for criminal responsibility according to the legal procedure, or was required for mandatory implementation in accordance with law, or was restricted from certain citizen's rights, which Party A believes have affected or may affect Party B's capability to fulfill the guarantee responsibilities.

10.3 The heir or legatee of Party B refuses to inherit or bequest, or refuses to continue to assume the guarantee responsibilities after inheritance or bequest.

11. Any other occasions or situations relating to Party B that has led to or will soon lead to the degrading of Party B's guarantee capabilities or endangering Party A's rights and interests.

#### B. Default Liabilities

If the situation mentioned in the provision A happens, Party A has the right to take any or several of the following measures at that time:

1. Request Party B to assume the guarantee responsibilities and execute the right to access Party B's bank account to deduct all the principal debts (include contingent liabilities), interest, compound interest, punitive interest, and the cost for realizing creditor's right within the term of guarantee, which includes but is not limited to credit investigation, examination and notary fees related to this contract, and all legal fees, arbitration fees, travel expenses, announcement fees, delivery fees, execution fees and other fees that are paid for realization of the creditor's rights.
  2. Request Party B to provide additional cover on the debts under the Principal Contract, including but not limited to collateral and pledged assets.
  3. Party B should compensate for all losses claimed by Party A.
  4. Party A is entitled to claim for the right of subrogation from Party B's debtor through legal procedure, Party B needs to provide all necessary assistance and bear all costs during the application procedure.
  5. In a claim for the People's court to revoke an action that Party B gave up a due claim or transferred property without payment or at an unreasonable lower price, Party B needs to provide all necessary assistance and bear all costs during the legal procedure.
  6. Other measures of compensation in accordance with the law and agreements.
-

**Clause 11** If there is a circumstance in which all or part of a clause in the Principal Contract or any specific credit line contracts under the Principal Contract is nullified in terms of law, Party A is still entitled to request that the Debtor repay the principal, interests and other related costs of the issued loan in accordance with law. Under above circumstances, this contract remains valid, and Party B should still assume the guarantee responsibilities towards Debtor in the term of guarantee stated in this contract.

**Clause 12 Party B's commitments**

1. Party B legally possessed the power, rights and authorizations for signing, delivering and executing this contract. The covenants in this contract are able to form an effective binding and execution towards Party B.
2. If Party B is an enterprise legal person, Party B should be a well established company legally set up and operating in its jurisdiction. Party B has full authorization of the company and is operating the business within the scope legally registered with the government authorities.
3. Party B should guarantee the truth, completeness, legitimacy and validity of all the documents provided, and that no fake record, misleading statement and significant omission is in the documents provided.
4. Party B promises herein, Party B will fully perform the burden of the contract in good faith, and will not take any actions before obtaining Party A's written consent that could damage the creditor's rights (those actions include but are not limited to performing what should not be performed, or refusing to perform what should be performed.)
5. Party B should notify Party A in writing about any changes of its domicile, address, phone of contact as well as scope of business and legal representative. The written notification should be sent within 10 days after the registration. If Party B fails to perform the said notification, all correspondence sent to the original address of Party B by Party A is considered valid.
6. Party B herein confirms, Party B has full understanding and awareness of all the terms and conditions listed in this contract, and signing this contract is the true expression of Party B's will.

**Clause 13 Amendment of the Contract**

1. Agreed by both parties, this contract can be amended or dissolve in writing.
  2. When the Principal Contract needs amendment, it is Party A's responsibility to notify Party B in writing in time, once Party B agrees, Party B continues to assume the guarantee responsibilities for the debt under the amended Principal Contract. However, if the liability of the Debtor has relived (including but not limited to reducing the amount of debt, shortening the period of debt, etc.) after the amendment, Party B should be deem to agree to the amendments, written agreements under this circumstance are not necessary, and Party B continues to assume the guarantee responsibilities.
-

**Clause 14** During the period of this contract, Party A may sometimes tolerate, extend, or delay execution on Party B's default or delay actions. These will not damage, affect or limit Party A's creditor's rights by law. The tolerance, extension or delay execution cannot be deemed as Party A's approval and consent on the defaults nor can it be deemed as Party A giving up the creditor's rights for further execution.

**Clause 15 Applicable Law and Resolution for Dispute**

1. This contract is entered into according to the People's Republic of China, and is applicable to the law of the People's Republic of China.
2. The resolution of dispute should be in accordance with the Principal Contract.

**Clause 16** This Agreement is established and entered into effect upon signing or sealing by the legal representatives (or person-in-charge) of Party A and Party B or their duly authorized agents, together with sealing by the company chop.

Stamp of Party A

/s/ [COMPANY STAMP]

Signature of director or authorized representative

November 22, 2012

Stamp of Party B (if Party B is a corporation)

Signature of legal representative or authorized representative

Signature of Party B (if Party B is an individual) or authorized representative:

/s/ Dangyu Pan

November 22, 2012

---

[INFORMATION FOR PURPOSES OF FILING WITH THE SECURITIES AND EXCHANGE COMMISSION]

SCHEDULE A

GUARANTORS/PARTY B

Springpower Technology (Shenzhen) Co., Ltd.  
Dangyu Pan

---





INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of Highpower International, Inc. and subsidiaries (the "Company") on Form S-8 (File No.333-157443) and the Registration Statement on Form S-3 (File No. 333-168473) of our report dated April 1, 2013, with respect to our audits of the consolidated financial statements of the Company as of December 31, 2012 and 2011, and for the years ended December 31, 2012 and 2011, which report is included in this Annual Report on Form 10-K of the Company for the years ended December 31, 2012 and 2011.

/s/ Marcum Bernstein & Pinchuk LLP  
New York, New York  
April 1, 2013

---

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

I, Dangyu Pan, certify that:

1. I have reviewed this annual report on Form 10-K of Highpower International, Inc.;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

Date: April 1, 2013

/s/ Dangyu Pan

By: Dangyu Pan

Chief Executive Officer

(Principal Executive Officer)

---

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

I, Henry Sun, certify that:

1. I have reviewed this annual report on Form 10-K of Highpower International, Inc.;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

Date: April 1, 2013

/s/ Henry Sun

---

Henry Sun

Chief Financial Officer

(Principal Financial and Accounting Officer)

---

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

In connection with the annual report of Highpower International, Inc. (the "Company") on Form 10-K for the year ending December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the date indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dangyu Pan

Dangyu Pan  
Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)  
April 1, 2013

/s/ Henry Sun

Henry Sun  
Chief Financial Officer  
(Principal Financial and Accounting Officer)  
April 1, 2013

---