Highpower International, Inc.
Form 10-Q
November 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended September 30, 2015

OR

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

For The Transition Period From To

COMMISSION FILE NO.001-34098

HIGHPOWER INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**20-4062622**
(State or other jurisdiction of	*(I.R.S. Employer*
incorporation or organization)	*Identification Number)*

Building A1, 68 Xinxia Street, Pinghu, Longgang,

Shenzhen, Guangdong, 518111, People's Republic of China

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)(ZIP CODE)

(86) 755-89686238

(COMPANY'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

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

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

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

The registrant had 15,101,679 shares of common stock, par value $0.0001 per share, outstanding as of November 16, 2015.

HIGHPOWER INTERNATIONAL, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED September 30, 2015

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Item 1. Consolidated Financial Statements

HIGHPOWER INTERNATIONAL, INC.AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Stated in US Dollars except Number of Shares)

	September 30, 2015 (Unaudited) $	December 31, 2014 $
ASSETS		
Current Assets:		
Cash and cash equivalents	7,910,185	14,611,892
Restricted cash	12,424,799	15,396,827
Accounts receivable, net	36,175,692	32,316,607
Notes receivable	1,902,394	621,110
Prepayments	4,243,902	3,283,520
Other receivables	743,714	665,828
Inventories	21,992,983	22,268,069
Total Current Assets	85,393,669	89,163,853
Property, plant and equipment, net	50,187,438	50,437,718
Land use right, net	4,081,797	4,305,317
Intangible asset, net	562,500	600,000
Deferred tax assets	1,877,181	1,647,184
TOTAL ASSETS	142,102,585	146,154,072
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts payable	36,921,440	44,562,647
Deferred income	1,080,230	1,887,409
Short-term loan	15,167,241	15,195,040
Notes payable	34,429,238	29,903,248
Other payables and accrued liabilities	6,655,287	5,896,547
Income taxes payable	1,601,146	1,968,656

Current portion of long-term loan	1,889,615	1,959,248
Total Current Liabilities	97,744,197	101,372,795
Warrant Liability	125,989	1,067,674
Long-term loan	472,404	1,959,247
TOTAL LIABILITIES	98,342,590	104,399,716
COMMITMENTS AND CONTINGENCIES	-	-

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HIGHPOWER INTERNATIONAL, INC.AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Stated in US Dollars except Number of Shares)

	September 30, 2015 (Unaudited) $	December 31, 2014 $
EQUITY		
Stockholders' equity		
Preferred stock		
(Par value: $0.0001, Authorized: 10,000,000 shares, Issued and outstanding: none)	-	-
Common stock		
(Par value: $0.0001, Authorized: 100,000,000 shares, 15,101,679 shares issued and outstanding at September 30, 2015 and 15,084,746 shares issued and outstanding at December 31, 2014)	1,510	1,508
Additional paid-in capital	11,110,723	10,530,430
Statutory and other reserves	3,611,501	3,611,501
Retained earnings	24,362,131	20,675,021
Accumulated other comprehensive income	3,645,117	5,628,657
Total equity for the Company's stockholders	42,730,982	40,447,117
Non-controlling interest	1,029,013	1,307,239
TOTAL EQUITY	43,759,995	41,754,356
TOTAL LIABILITIES AND EQUITY	142,102,585	146,154,072

See notes to consolidated financial statements

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Stated in US Dollars except Number of Shares)

	Three months ended September 30,		Nine months ended September 30,	
	2015 (Unaudited) $	2014 (Unaudited) $	2015 (Unaudited) $	2014 (Unaudited) $
Net sales	37,556,826	44,474,560	108,330,275	111,769,510
Cost of sales	(30,340,151)	(35,069,440)	(86,994,126)	(88,703,954)
Gross profit	7,216,675	9,405,120	21,336,149	23,065,556
Research and development expenses	(1,963,690)	(2,056,045)	(5,635,308)	(5,844,962)
Selling and distribution expenses	(1,712,303)	(1,697,674)	(5,108,589)	(4,822,560)
General and administrative expenses	(3,295,815)	(3,295,262)	(9,744,336)	(10,178,838)
Foreign currency transaction gain (loss)	1,458,363	(15,369)	1,902,220	334,326
Gain (loss) on derivative instruments	-	59,785	-	(56,349)
Total operating expenses	(5,513,445)	(7,004,565)	(18,586,013)	(20,568,383)
Income from operations	1,703,230	2,400,555	2,750,136	2,497,173
Gain (loss) on change of fair value of warrant liability	510,553	(1,286,335)	941,685	(1,211,787)
Other income	154,904	590,117	742,051	1,493,491
Interest expenses	(246,563)	(458,534)	(790,681)	(1,528,077)
Income before taxes	2,122,124	1,245,803	3,643,191	1,250,800
Income taxes expenses	(270,622)	(439,659)	(194,206)	(628,872)
Net income	1,851,502	806,144	3,448,985	621,928
Less: net loss attributable to non-controlling interest	(91,843)	(68,023)	(238,126)	(129,588)
Net income attributable to the Company	1,943,345	874,167	3,687,111	751,516
Comprehensive income				
Net income	1,851,502	806,144	3,448,985	621,928
Foreign currency translation (loss) income	(2,024,906)	19,368	(2,023,640)	(341,754)
Comprehensive (loss) income	(173,404)	825,512	1,425,345	280,174
Less: comprehensive loss attributable to non-controlling interest	(133,677)	(67,486)	(278,226)	(140,213)
Comprehensive (loss) income attributable to the Company	(39,727)	892,998	1,703,571	420,387

Income per share of common stock attributable to the Company				
- Basic	0.13	0.06	0.24	0.05
- Diluted	0.13	0.06	0.24	0.05
Weighted average number of common stock outstanding				
- Basic	15,101,679	15,052,158	15,098,479	14,632,491
- Diluted	15,148,887	15,590,142	15,367,542	15,045,776

See notes to consolidated financial statements

HIGHPOWER INTERNATIONAL, INC.AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in US Dollars)

	Nine months ended September 30,	
	2015	2014
	(Unaudited)	(Unaudited)
	$	$
Cash flows from operating activities		
Net income	3,448,985	621,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,038,596	3,161,384
Allowance for doubtful accounts	1,132	103
Loss on disposal of property, plant and equipment	145,572	346,866
Gain on derivative instruments	-	67,748
Deferred income tax	(294,943)	(830,413)
Share based payment	535,761	1,064,969
(Gain) loss on change of fair value of warrant liability	(941,685)	1,211,787
Changes in operating assets and liabilities:		
Accounts receivable	(4,671,730)	(4,404,612)
Notes receivable	(1,339,122)	(1,453,621)
Prepayments	(1,102,578)	448,249
Other receivable	(104,336)	339,411
Inventories	(530,357)	(989,237)
Accounts payable	(6,233,405)	10,701,057
Deferred income	242,683	1,635,985
Other payables and accrued liabilities	981,979	(920,591)
Income taxes payable	(305,698)	777,753
Net cash flows (used in) provided by operating activities	(6,129,146)	11,778,766
Cash flows from investing activities		
Acquisitions of plant and equipment	(7,250,757)	(5,864,112)
Net cash flows used in investing activities	(7,250,757)	(5,864,112)
Cash flows from financing activities		
Proceeds from short-term bank loans	11,325,212	15,821,648
Repayment of short-term bank loans	(10,916,379)	(35,934,559)
Repayment of long-term bank loans	(1,456,099)	(1,463,605)
Proceeds from notes payable	49,315,315	34,246,949
Repayment of notes payable	(43,573,196)	(32,308,636)
Proceeds from exercise of employee options	44,534	-
Proceeds from issuance of capital stock, net	-	4,633,164
Change in restricted cash	2,491,383	12,900,973

Net cash flows provided by (used in) financing activities	7,230,770	(2,104,066)
Effect of foreign currency translation on cash and cash equivalents	(552,574)	18,757
Net (decrease) increase in cash and cash equivalents	(6,701,707)	3,829,345
Cash and cash equivalents - beginning of period	14,611,892	7,973,459
Cash and cash equivalents - end of period	7,910,185	11,802,804
Supplemental disclosures for cash flow information:		
Cash paid for:		
Income taxes	794,846	681,533
Interest expenses	822,257	1,489,796
Non-cash transactions		
Accounts payable for construction in progress	-	648,385
Reduction of property, plant and equipment cost by realizing deferred income	976,301	669,995

See notes to consolidated financial statements

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

1. Organization and basis of presentation

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

Highpower was incorporated in the State of Delaware on January 3, 2006. HKHTC was incorporated in Hong Kong on July 4, 2003. All other subsidiaries are incorporated in the People’s Republic of China (“PRC”).

On May 15, 2013, GZ Highpower increased its paid-in capital from RMB15,000,000 ($2,381,293) to RMB30,000,000 ($4,807,847). SZ Highpower holds 60% of the equity interest of GZ Highpower, and four founding management members of GZ Highpower hold the remaining 40%. On November 13, 2014, GZ Highpower increased its paid-in capital from RMB30,000,000 ($4,898,119) to RMB40,000,000 ($6,530,825) and the additional capital of RMB10,000,000 was contributed by SZ Highpower. As of December 31, 2014, SZ Highpower holds 70% of the equity interest of GZ Highpower, and four founding management members of GZ Highpower hold the remaining 30%.

In April 2014, the Company and certain institutional investors entered into a securities purchase agreement, pursuant to which the Company sold 1,000,000 shares of common stock and warrants exercisable for 500,000 shares of common stock in a registered direct offering at a price of $5.05 per fixed combination for aggregate proceeds of $5.05 million. The shares and warrants were sold in multiples of a fixed combination consisting of (i) one share of common stock and (ii) one immediately exercisable warrant to purchase 0.50 shares of common stock. The net proceeds from the offering were $4,633,164, after deducting fees due the placement agent and offering expenses.

HZ Highpower was dissolved in September 2015.

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 and marketing of batteries
Shenzhen Highpower Technology Co., Ltd ("SZ Highpower")	PRC October 8, 2002	100	%	Manufacturing & marketing of batteries
Highpower Energy Technology (Huizhou) Co., Ltd ("HZ Highpower")	PRC January 29, 2008	100	%	Dissolved
Springpower Technology (Shenzhen) Co., Ltd ("SZ Springpower")	PRC June 4, 2008	100	%	Research & manufacturing of batteries
Ganzhou Highpower Technology Co., Ltd ("GZ Highpower")	PRC September 21, 2010	70	%	Processing, marketing and research of battery materials
Icon Energy System Co., Ltd. ("ICON")	PRC February 23, 2011	100	%	Research and production of advanced battery packs and systems
Huizhou Highpower Technology Co., Ltd ("HZ HTC")	PRC March 8, 2012	100	%	Manufacturing & marketing of batteries

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

2. Summary of significant accounting policies

Basis of presentation

The accompanying consolidated balance sheet as of December 31, 2014, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements as of September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and disclosures, which are normally included in financial statements prepared in accordance with United States generally accepted accounting principles (U.S. GAAP), have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. The interim financial information should be read in conjunction with the Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the Company's consolidated financial position as of September 30, 2015, its consolidated results of operations and cash flows for the nine months ended September 30, 2015 and 2014, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Consolidation

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

Use of estimates

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

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

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.

No customer accounted for 10% or more of total sales during the nine months ended September 30, 2015 and 2014.

No supplier accounted for 10% or more of total purchase amount during the nine months ended September 30, 2015 and 2014.

As of September 30, 2015, there was one major customer accounted for 10% of the accounts receivable. And none of the Company's customers accounted for 10% or more of the accounts receivable as of December 31, 2014.

Cash and cash equivalents

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

Restricted cash

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

Accounts receivable

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

Notes receivable

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

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Inventories

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

Property, plant and equipment, net

Property, plant and equipment, net 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. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life.

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

Buildings	2.5% -5%
Furniture, fixtures and office equipment	20%
Leasehold improvement	20 - 50%
Machinery and equipment	10%
Motor vehicles	20%

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

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

Land use rights, net

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

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Intangible assets

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

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

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

Government grants

Government grants are recognized when received and all the conditions for their receipt have been met.

Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets is recognized on the consolidated balance sheet as deferred income and deducted in calculating the carrying amount of the related asset. As of September 30, 2015 and December 31, 2014, the Company recorded deferred income of $1,080,230 and $1,887,409, respectively, for the government grants to purchase non-current assets.

Government grants as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related benefit are recognized as other income in the period in which they become receivable. In the nine months ended September 30, 2015 and 2014, approximately $246,442 and $292,197 of government grants were recognized as other income, respectively.

Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, delivery of the product has occurred, title and risk of loss have transferred to the customers and collectability of the receivable is reasonably assured. The majority of domestic sales contracts transfer title and risk of loss to customers upon receipt. The majority of oversea sales contracts transfer title and risk of loss to customers when goods were delivered to the carriers. Revenue is presented net of any sales tax and value added tax.

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

Cost of sales

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

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Shipping and handling

Shipping and handling expenses are recorded as selling expenses when occurred. Shipping and handling expenses relating to sales were $767,108 and $663,069, respectively, for the nine months ended September 30, 2015 and 2014.

Research and development

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

Advertising

Advertising, which generally represents the cost of promotions to create or stimulate a positive image of the Company or a desire to buy the Company's products and services, is expensed as incurred. No significant advertising expense was recorded for the nine months ended September 30, 2015 and 2014.

Share-based compensation

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

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

Income taxes

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

Uncertain tax positions

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company classifies the liability for unrecognized tax benefits as current to the extent that the Company anticipates payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized and recorded as necessary in the provision for income taxes. There were no uncertain tax positions as of September 30, 2015 and December 31, 2014.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Comprehensive income

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

Foreign currency translation and transactions

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

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

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

Segment Reporting

The Company uses the “management approach” in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. The Company’s reportable segments are based on products, geography, legal structure, management structure, or any other manner in which management disaggregates a company. Therefore, the Company categorizes its business into three reportable segments, namely (i) Ni-MH Batteries; (ii) Lithium Batteries; and (iii) New Materials.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

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

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

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

-Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

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

-Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Warrant Liabilities

For warrants that are not indexed to the Company's stock, the Company records the fair value of the issued warrants as a liability at each balance sheet date and records changes in the estimated fair value as a non-cash gain or loss in the consolidated statement of operations and comprehensive loss. The fair values of these warrants have been determined using the Black-Scholes pricing model. The Black-Scholes pricing model provides for assumptions regarding volatility, call and put features and risk-free interest rates within the total period to maturity. These values are subject to a significant degree of judgment on the part of the Company.

Derivatives

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

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Earnings per share

Basic earnings per share (“EPS”) is computed by dividing income attributable to holders of common shares by the weighted average number of common shares outstanding during the year. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. Potential dilutive securities are excluded from the calculation of diluted EPS in loss periods as their effect would be anti-dilutive.

Recently issued accounting pronouncements

As of November 16, 2015, the Financial Accounting Standards Board (“FASB”) has issued ASU No. 2015-01 Income Statement-Extraordinary and Unusual Items through ASU No. 2015-16 Business Combinations, which are not expected to have a material impact on the consolidated financial statements upon adoption.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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3. Restricted cash

As of September 30, 2015 and December 31, 2014, restricted cash consisted of the following:

	September 30, 2015 (Unaudited)	December 31, 2014
	$	$
Securities for bank acceptance bill	11,381,024	10,689,297
Time deposits	1,043,775	4,707,530
	12,424,799	15,396,827

4. Accounts receivable, net

As of September 30, 2015 and December 31, 2014, accounts receivable consisted of the following:

	September 30, 2015 (Unaudited)	December 31, 2014
	$	$
Accounts receivable	38,652,032	34,816,914
Less: allowance for doubtful debts	2,476,340	2,500,307
	36,175,692	32,316,607

The Company recorded bad debt expense of $1,132 and $103, respectively, during the nine months ended September 30, 2015 and 2014. The Company recorded bad debt expense of $236 during the three months ended September 30, 2015, and the Company reversed bad debt expenses of $163 during the three months ended September 30, 2014. The Company wrote off accounts receivable of $nil and $2,948, respectively, in the nine months ended September 30, 2015 and 2014. The Company wrote off accounts receivable of $nil for both three months ended September 30, 2015 and 2014.

5. Prepayments

	September 30, 2015 (Unaudited)	December 31, 2014
	$	$
Purchase deposits paid	2,138,835	1,793,599
Value-added tax prepayment	401,239	384,008
Rental deposit	424,533	266,556
Deferred insurance fee	117,019	97,005
Advances to staff for operations	244,635	122,452
Other deposits and prepayments	917,641	619,900
	4,243,902	3,283,520

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

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

6. Other receivables

	September 30, 2015 (Unaudited) $	December 31, 2014 $
Compensation receivable for land occupation	498,065	516,418
Others	245,649	149,410
	743,714	665,828

7. Inventories

	September 30, 2015 (Unaudited) $	December 31, 2014 $
Raw materials	4,599,155	4,341,675
Work in progress	5,071,096	3,949,778
Finished goods	11,940,131	13,685,166
Packing materials	21,490	20,137
Consumables	361,111	271,313
	21,992,983	22,268,069

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 Company wrote down inventory of $333,672 and $586,748, in the nine months ended September 30, 2015 and 2014. The Company wrote off inventory of $57,876 and wrote down inventory of $381,876 for three months ended September 30, 2015 and 2014, respectively.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

8. Property, plant and equipment, net

	September 30, 2015 (Unaudited) $	December 31, 2014 $
Cost		
Construction in progress	1,437,882	715,821
Furniture, fixtures and office equipment	3,942,837	3,754,990
Leasehold improvement	4,130,174	3,763,290
Machinery and equipment	30,063,513	28,180,306
Motor vehicles	1,653,427	1,479,921
Building	24,463,867	25,414,914
	65,691,700	63,309,242
Less: accumulated depreciation	15,504,262	12,871,524
	50,187,438	50,437,718

The Company recorded depreciation expenses of $3,928,655 and $3,051,069 for the nine months ended September 30, 2015 and 2014, respectively, and $1,466,647 and $1,071,176 for the three months ended September 30, 2015 and 2014, respectively.

During the nine months ended September 30, 2015, the Company deducted deferred income related to government grants of $976,301 in calculating the carrying amount of property, plant and equipment. During the year ended December 31, 2014, the Company deducted deferred income related to government grants of $672,675 in calculating the carrying amount of property, plant and equipment.

The buildings comprising the Huizhou facilities were pledged as collateral for bank loans as of September 30, 2015 and December 31, 2014. The carrying amount of the building was $10,011,522 and $10,573,369 as of September 30, 2015 and December 31, 2014, respectively.

As of September 30, 2015, the buildings comprising the Ganzhou facilities were pledged as collateral for line of credit, which were used for short-term loans and bank guarantee promissory notes. The carrying amount of the building was $2,751,710 as of September 30, 2015.

9. Land use rights, net

	September 30, 2015 (Unaudited)	December 31, 2014
	$	$
Cost		
Land located in Huizhou	3,381,319	3,505,921
Land located in Ganzhou	1,319,119	1,367,729
	4,700,438	4,873,650
Accumulated amortization	(618,641)	(568,333)
Net	4,081,797	4,305,317

As of September 30, 2015, land use rights of the Company included certain parcels of land located in Huizhou City, Guangdong Province, PRC and Ganzhou City, Jiangxi Province, PRC. Land use rights for land in Huizhou City with an area of approximately 126,605 square meters and in Ganzhou City with an area of approximately 58,669 square meters will expire on May 23, 2057 and January 4, 2062, respectively.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

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

	$
Remaining 2015	23,502
2016	94,009
2017	94,009
2018	94,009
2019	94,009
2020 and thereafter	3,682,259
	4,081,797

The Company recorded amortization expenses of $72,441 and $72,815 for the nine months ended September 30, 2015 and 2014, respectively, and $23,753 and $24,222 for the three months ended September 30, 2015 and 2014, respectively.

The land use right for land located in Huizhou City was pledged as collateral for bank loans as of September 30, 2015 and December 31, 2014.

As of September 30, 2015, the land use right for land located in Ganzhou City was pledged as collateral for line of credit, which was used for short-term loans and bank guarantee promissory notes.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

10. Intangible asset

	September 30, 2015 (Unaudited) $	December 31, 2014 $
Cost		
Consumer battery license fee	1,000,000	1,000,000
Accumulated amortization	(437,500)	(400,000)
Net	562,500	600,000

The Company is amortizing the $1,000,000 cost of the Consumer Battery License Agreement with License Provider over a period of 20 years on the straight line basis over the estimated useful life of the underlying technology, which is based on the Company's assessment of existing battery technology, current trends in the battery business, potential developments and improvements, and the Company's current business plan.

As of September 30, 2015 and December 31, 2014, the Company had an exclusive proprietary technology with historical cost of zero but still in use. The exclusive proprietary technology was contributed by four founding management members of GZ Highpower in exchange for the paid-in capital of GZ Highpower. The historical cost basis was recorded at $nil at the four management members' historical cost basis.

Amortization expenses included in research and development expenses were $37,500 for the nine months ended September 30, 2015 and 2014, and $12,500 for the three months ended September 30, 2015 and 2014.

11. Other payables and accrued liabilities

	September 30, 2015 (Unaudited) $	December 31, 2014 $
Accrued expenses	4,228,893	3,649,806
Royalty payable	473,990	580,032
VAT payable	432,260	405,859

Sales deposits received	1,076,126	911,947
Other payables	444,018	348,903
	6,655,287	5,896,547

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

12. Taxation

The Company and its subsidiaries file tax returns separately.

1) VAT

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

2) Income tax

United States

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

Hong Kong

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

PRC

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

In China, the companies granted with National High-tech Enterprise (“NHTE”) status enjoy 15% income tax rate. This status needs to be renewed every three years. In 2008, SZ Highpower received NHTE status, which was renewed in 2011 and recently renewed in 2014. In 2013, SZ Springpower received NHTE status. In 2014, both GZ Highpower and ICON received NHTE status. If these subsidiaries fail to renew NHTE status, they will be subject to income tax at a rate of 25% after the expiration of NHTE status.

All the other PRC subsidiaries are not entitled to any tax holiday. They were subject to income tax at a rate of 25% for calendar years 2015 and 2014.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

12. Taxation (continued)

The components of the provision for income taxes expenses are:

	Three months ended September 30,		*Nine months ended September 30,*	
	2015 (Unaudited) $	2014 (Unaudited) $	2015 (Unaudited) $	2014 (Unaudited) $
Current	335,515	720,932	489,149	1,459,285
Deferred	(64,893)	(281,273)	(294,943)	(830,413)
Total	270,622	439,659	194,206	628,872

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

	Three months ended September 30,		*Nine months ended September 30,*	
	2015 (Unaudited) $	2014 (Unaudited) $	2015 (Unaudited) $	2014 (Unaudited) $
Income before tax	2,122,124	1,245,803	3,643,191	1,250,800
Provision for income taxes at applicable income tax rate	518,320	154,019	831,261	73,150
Effect of preferential tax rate	(220,375)	(332,606)	(189,125)	(546,529)
R&D expenses eligible for super deduction	4,494	74	(551,113)	(71,531)
Non-deductible expenses	14,206	43,591	41,107	124,082
Change in valuation allowance	(46,023)	574,581	62,076	1,049,700
Effective enterprise income tax	270,622	439,659	194,206	628,872

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.

	September 30, 2015 (Unaudited)	December 31, 2014
	$	$
Tax loss carry-forward	3,970,745	3,798,290
Allowance for doubtful receivables	107,835	111,637
Allowance for inventory obsolescence	221,702	138,458
Difference for sales cut-off	48,387	20,572
Deferred income	162,034	283,111
Property, plant and equipment subsidized by government grant	241,936	100,901
Total gross deferred tax assets	4,752,639	4,452,969
Valuation allowance	(2,875,458)	(2,805,785)
Total net deferred tax assets	1,877,181	1,647,184

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

13. Notes payable

Notes payable are presented to certain suppliers as a payment against the outstanding trade payables.

Notes payable are mainly 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 and $377,923 notes receivable of Springpower, $1,015,682 note receivable of HZ HTC, and $157,468 note receivable of GZ Highpower. Outstanding notes payable were $34,429,238 and $29,903,248 as of September 30, 2015 and December 31, 2014, respectively.

As of September 30, 2015, the Company issued $nil trade acceptances to suppliers. These trade acceptances are non-interest bearing and mature within six months. No security deposit is needed. The trade acceptance as of December 31, 2014 was $522,466.

14. Short-term loans

	September 30, 2015 (Unaudited)	December 31, 2014
	$	$
Short- term bank loans guaranteed and repayable within one year	15,167,241	15,195,040

As of September 30, 2015, the above bank borrowings were for working capital and capital expenditure purposes and were secured by personal guarantees executed by certain directors of the Company, a land use right with a carrying amount of $4,081,797, and the building with a carrying amount of $12,763,232.

The loans as of September 30, 2015 were primarily obtained from 8 banks with interest rates ranging from 5.75% to 6.624% per annum. The interest expenses were $620,070 and $1,240,334 for the nine months ended September 30, 2015 and 2014, respectively, and $200,914 and $370,775 for the three months ended September 30, 2015 and 2014, respectively.

15. Lines of credit

The Company entered into various credit contracts and revolving lines of credit, which were used for short-term loans and bank acceptance bills. The following tables summarize the unused lines of credit as of September 30, 2015 and December 31, 2014:

	September 30, 2015 (Unaudited)			
Lender	Starting date	Maturity date	Line of credit	***Unused line of credit***
			$	$
Ping An Bank Co., Ltd	10/20/2014	10/19/2015(i)	11,022,754	3,329,344
Shenzhen Baoan Guiyin County Bank	11/19/2014	11/18/2015	4,566,570	4,566,570
Industrial Bank Co., Ltd	7/15/2015	7/15/2016	9,448,075	6,713,634
China Everbright Bank Co., Ltd	6/23/2015	6/22/2016	7,873,396	2,515,922
Bank of China	7/1/2015	6/30/2016	11,472,662	2,010,110
Bank of China	7/13/2015	9/13/2016	14,093,378	6,109,755
China Minsheng Banking Corp.,Ltd	7/16/2015	7/16/2016	4,499,083	1,962,330
Total			62,975,918	27,207,665

(i) The lines of credit from the bank is terminated at the maturity date.

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

15. Lines of credit (continued)

Lender	December 31, 2014 Starting date	Maturity date	Line of credit	***Unused line of credit***
			$	$
Bank of China	3/10/2014	3/10/2015 (ii)	12,653,474	424,823
Bank of China	7/23/2014	7/23/2015 (ii)	3,965,144	67,516
Ping An Bank Co., Ltd	10/20/2014	10/19/2015	11,428,945	295,818
China Minsheng Banking Corp., LTD	5/22/2014	5/22/2015 (ii)	3,265,413	-
Shenzhen Baoan Guiyin County Bank	11/19/2014	11/18/2015	4,734,848	1,750,151
Industrial and Commercial Bank of China	7/26/2012	7/25/2015 (i)	6,530,826	3,918,496
China Citic Bank	6/25/2014	6/25/2015 (i)	8,046,910	6,788,093
Industrial Bank Co., Ltd	10/23/2014	10/23/2015 (iii)	6,530,825	4,430,636
Jiang Su Bank Co., Ltd	10/28/2014	9/11/2015 (i)	4,898,119	4,898,119
Total			62,054,504	22,573,652

(i) The lines of credit from these banks are terminated at maturity dates.

(ii) The lines of credit from these banks are rolled over after maturity dates.

(iii) The lines of credit from Industrial Bank Co., Ltd rolled over before maturity date.

The lines of credits from Bank of China, Ping An Bank, China Minsheng Banking Corp., Ltd, Industrial Bank Co. Ltd, Shenzhen Baoan Guiyin County Bank and China Everbright Bank 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: that the borrower may not serve as a guarantor for more than double its net assets; that the borrower is restricted in certain circumstances from using the loans in connection with related party transactions or other transactions with affiliates; that the borrower must provide monthly reports to certain lenders describing the actual use of loans; that the borrower may need to obtain approval to engage in major corporate transactions; and that the borrower may need to obtain approval to increase overseas investments, guarantee additional debt or incur additional debt by an amount which exceeds 20% of its total net assets should the lender determine that such action would have a material impact on the ability of the borrower to repay the loan. The covenants in these loan agreements could prohibit the Company from incurring any additional debt without consent from its lenders. The Company believes it would be able to obtain consents from the lenders in the event it needed to do so. The agreements governing the Company's loans may also include covenants that, in certain circumstances, may require the Company's PRC operating subsidiaries to give notice to, or obtain consent from, certain of their lenders prior to making a distribution of net profit, as well as covenants restricting the ability of the Company's PRC operating subsidiaries from extending loans. As of September 30, 2015 and December 31, 2014, the Company was in compliance with all material covenants in its loan agreements.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

16. Long-term loans

	September 30, 2015	*December 31, 2014*
	(Unaudited)	
	$	$
Long term loans from Bank of China	2,362,019	3,918,495
Less: current portion of long-term borrowings	1,889,615	1,959,248
Long- term bank loans, net of current portion	472,404	1,959,247

On January 13, 2012, the Company borrowed $8,198,065 (RMB50 million) from the Bank of China, which is guaranteed by the Company's Chief Executive Officer, Mr. Dang Yu Pan. It is a five-year long-term loan, with an annual interest rate of 5.5%, which was equal to 110% of the benchmark-lending rate of the People's Bank of China ("PBOC") as of September 30, 2015. Interest expenses are to be paid quarterly.

The interest expenses were $170,611 and $287,743 for the nine months ended September 30, 2015 and 2014, respectively, and $45,649 and $87,759 for the three months ended September 30, 2015 and 2014, respectively.

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

	$
Remaining 2015	472,404
2016	1,889,615
	2,362,019

17. Share-based Compensation

The 2008 Omnibus Incentive Plan

The 2008 Omnibus Incentive Plan (the "2008 Plan") was approved by the Company’s Board of Directors on October 29, 2008 to be effective at such date, subject to approval of the Company’s stockholders, which occurred on December 11, 2008. The 2008 Plan has a ten year term. The 2008 Plan reserves two million shares of common stock for issuance, subject to adjustment in the event of a recapitalization in accordance with the terms of the 2008 Plan.

The 2008 Plan authorizes the issuance of awards including stock options, restricted stock units (RSUs), restricted stock, unrestricted stock, stock appreciation rights (SARs) and other equity and/or cash performance incentive awards to employees, directors, and consultants of the Company. Subject to certain restrictions, the Compensation Committee of the Board of Directors has broad discretion to establish the terms and conditions for awards under the 2008 Plan, including the number of shares, vesting conditions and the required service or performance criteria. Options and SARs may have a contractual term of up to ten years and generally vest over three to five years with an exercise price equal to the fair market value on the date of grant. Incentive stock options (ISOs) granted must have an exercise price equal to or greater than the fair market value of the Company’s common stock on the date of grant. Repricing of stock options and SARs is permitted without stockholder approval. If a particular award agreement so provides, certain change in control transactions may cause such awards granted under the 2008 Plan to vest at an accelerated rate, unless the awards are continued or substituted for in connection with the transaction. As of September 30, 2015, approximately 569,762 shares of common stock remained available for issuance pursuant to awards granted under the 2008 Plan.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

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17. Share-based Compensation (continued)

Options Granted to Employees

	Number of Shares	Weighted Average Exercise Price $	Remaining Contractual Term in Years
Outstanding, January 1, 2014	1,105,000	2.87	8.51
Granted	-	-	-
Exercised	(200,000)	2.41	-
Forfeited	(44,714)	2.63	-
Canceled	(100,000)	3.55	-
Outstanding, December 31, 2014	760,286	2.92	7.78
Exercisable, December 31, 2014	413,620	3.16	6.98

	Number of Shares	Weighted Average Exercise Price $	Remaining Contractual Term in Years
Outstanding, January 1, 2015	760,286	2.92	7.78
Granted	75,000	4.43	-
Exercised	(16,933)	2.63	-
Forfeited	(18,048)	2.63	-
Canceled	-	-	-
Outstanding, September 30, 2015	800,305	3.07	7.23
Exercisable, September 30, 2015	451,658	3.32	6.57

The aggregate intrinsic value of options vested and expected to vest as of September 30, 2015 and December 31, 2014 was approximately $7,000 and $1.4 million, respectively. 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 nine months ended September 30, 2015, the Company granted options to purchase 75,000 shares to two employees. Nine employees exercised their option to purchase 16,933 shares of the Company's common stock. During the nine months ended September 30, 2015, three employees had resigned and their options to purchase a total of 18,048 shares of the Company's common stock were forfeited. These employees had resigned with 3,670 shares vested, which if not exercised with 90 days after termination they will be cancelled. These vested shares were exercised in the period.

During the three months ended September 30, 2015, there were no option grants or option exercises. One employee resigned and their options to purchase a total of 9,484 shares of the Company's common stock were forfeited.

During the nine months ended September 30, 2014, the Company did not grant any new options to employees. One employee exercised his options to purchase 160,000 shares of the Company's common stock. As a result, the Company issued 74,052 shares of common stock to this employee by net share settlement. Two employees resigned and their options to purchase a total of 29,204 shares of the Company's common stock were forfeited.

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 (Unaudited)

(Stated in US Dollars)

17. Share-based Compensation (continued)

Restricted Stock Awards Granted to Employees

During the year ended December 31, 2013, the Company granted 246,000 shares of restricted stock to members of the Board of Directors as Restricted Stock Awards ("RSA") under the 2008 Plan. The RSAs granted in 2013 had the following vesting periods; 30% immediately upon grant, 30% vest on first anniversary of the grant date, and 40% vest on the second anniversary of grant date. The RSAs are governed by agreements between the Company and recipients of the awards. Terms of the agreements are determined by the Compensation Committee. There were no RSAs granted to employees during the nine months ended September 30, 2015 and 2014.

The following table summarizes the restricted stock awards activities for the nine months ended September 30, 2015:

	Number of Shares	Weighted Average Exercise Price $	Remaining Contractual Term in Years
Outstanding, January 1, 2015	98,400	2.81	0.77
Granted	-	-	
Exercised	-	-	
Forfeited	-	-	
Outstanding, September 30, 2015	98,400	2.81	0.02
Expected to vest, September 30, 2015	87,441	2.81	0.02

Share-based Compensation to Nonemployees

On July 15, 2013, the Company entered into an agreement with a consulting firm. In return for the consulting firm's financial advisory service in the coming two years, the Company issued an aggregate of 150,000 shares of the Company's common stock to the consulting firm on August 15, 2013. The shares were fully vested upon issuance and the fair value of the shares was $171,000 which was based on the closing market price of the Company's common stock on August 15, 2013. The share-based compensation was being amortized over the consulting service period. In the second quarter of 2014, the service agreement was terminated.

The Company also agreed to issue another 150,000 shares of the Company's common stock to the consulting firm after a specific financing target is completed. As the financing target was not achieved before the termination of the service agreement in the second quarter of 2014, such 150,000 shares of common stock was not issued to the consulting firm.

Also, in connection with this consulting agreement, on January 17, 2014 the Company issued five year warrants to purchase 200,000 shares of the Company's common stock. The shares were fully vested upon issuance and the aggregate fair value of the warrants was approximately $390,000, which was calculated using the Black-Scholes pricing model, with the following weighted-average assumptions:

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

Expected volatility	83.6%
Risk-free interest rate	1.64%
Expected term from grant date (in years)	5.0
Dividend rate	-
Fair value	$1.95

Expected Term

The expected term of the warrants issued during the nine months ended September 30, 2014, represents the remaining contractual term of the warrants.

Expected Volatility

The expected volatility used for the nine-month period ended September 30, 2014 is based upon the Company's own trading history.

Risk-Free Interest Rate

The risk-free interest rate assumption is based on U.S. Treasury instruments with a term consistent with the remaining contractual term of the warrants issued during the first three quarters of 2014.

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 forfeiture rate is applied to stock options and restricted stock awards. The Company uses historical data to estimate pre-vesting forfeitures and records stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized on a ratable basis over the requisite service periods of the awards, which are generally the vesting periods. The Company records stock-based compensation expense only for those awards that are expected to vest.

17. Share-based Compensation (continued)

Total Share-based Compensation Expenses

As of September 30, 2015, the gross amount of unrecognized share-based compensation expense relating to unvested share-based awards held by employees was approximately $0.4 million, which the Company anticipates recognizing as a charge against income over a weighted average period of 1.26 years.

In connection with the grant of stock options, restricted stock awards and warrants to employees and nonemployees, the Company recorded stock-based compensation charges of $535,761 and $nil, respectively, for the nine-month period ended September 30, 2015, and $543,369 and $521,599, respectively, for the nine-month period ended September 30, 2014. The Company recorded stock-based compensation charges of $123,457 and $nil, respectively, for the three-month period ended September 30, 2015 and stock-based compensation charges of $148,725 and $ nil, respectively, for the three-month period ended September 30, 2014.

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(Stated in US Dollars)

18. Earnings per share

Basic 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. 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 stock in the diluted EPS computation in periods of losses from continuing operations, as their effect would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per common share for the three months ended September 30, 2015 and 2014, and the nine months ended September 30, 2015 and 2014.

	Three months ended September 30,		Nine months ended September 30,	
	2015 (Unaudited) $	2014 (Unaudited) $	2015 (Unaudited) $	2014 (Unaudited) $
Numerator:				
Net income attributable to the Company	1,943,345	874,167	3,687,111	751,516
Denominator:				
Weighted-average shares outstanding				
- Basic	15,101,679	15,052,158	15,098,479	14,632,491
- Diluted	15,148,887	15,590,142	15,367,542	15,045,776
Income per common share				
- Basic	0.13	0.06	0.24	0.05
- Diluted	0.13	0.06	0.24	0.05

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.

1,632,239 options and warrants outstanding with a total dilutive effect of 269,063 shares were included in the computation of diluted EPS for the nine months ended September 30, 2015. 1,655,797 options and warrants outstanding with a total dilutive effect of 413,286 shares were included in the computation of diluted EPS for the nine months ended September 30, 2014.

1,632,239 options and warrants outstanding with a total dilutive effect of 47,208 shares were included in the computation of diluted EPS for the three months ended September 30, 2015. There were 915,796 shares of stock options and 200,000 shares of warrants with a total dilutive effect of 525,716 shares, which included in the computation of diluted EPS for the three months ended September 30, 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

19. Securities Offering Transaction

In April 2014, the Company and certain institutional investors entered into a securities purchase agreement, pursuant to which the Company sold 1,000,000 shares of common stock and warrants exercisable for 500,000 shares of common stock in a registered direct offering at a price of $5.05 per fixed combination for aggregate proceeds of $5.05 million. The shares and warrants were sold in multiples of a fixed combination consisting of (i) one share of common stock and (ii) one immediately exercisable warrant to purchase 0.50 shares of common stock. The net proceeds from the offering were $4,633,164, after deducting fees due the placement agent and offering expenses.

The warrants have an initial exercise price of $6.33 per share and are exercisable until April 17, 2017. The exercise price of the warrants, and in some cases the number of shares issuable upon exercise of the warrants, will be subject to appropriate adjustment in relation to certain events. In addition, if the Company issues shares in the future at a price below $6.33 per share, the exercise price of the warrants will be reduced to such lower price. No adjustment will be made to the number of shares purchasable in such event.

The warrants were classified as a liability. The aggregate fair value of the warrant liability at issuance dates was $1,173,952. The residual balance of $3,459,212 was allocated to common shares issued.

The fair values of the warrants as of April 17, 2014 were calculated using the Black-Scholes pricing model with the following assumptions:

	April 17, 2014	
Expected volatility	85.76	%
Risk-free interest rate	0.9	%
Expected term (in years)	3.0	
Dividend rate	-	
Fair value	$ 2.3	

The fair value of the investor warrant liability will be re-measured at each period and recorded as a gain or loss on fair value of warrant liability. As of September 30, 2015 and December 31, 2014, the fair value of warrant liability was $125,989 and $1,067,674, respectively. The Company recognized a gain of $941,685 and a loss of $1,211,787 on the change of fair value of warrant liability for the nine months ended September 30, 2015 and 2014. The Company recognized a gain of $510,553 and a loss of $1,286,335 on the change of fair value of warrant liability for the three months ended September 30, 2015 and 2014, respectively.

The fair values of the warrants as of September 30, 2015 and December 31, 2014 were calculated using the Black-Scholes pricing model with the following assumptions:

	September 30, 2015			December 31, 2014		
Expected volatility		84.11	%		86.4	%
Risk-free interest rate		0.55	%		0.79	%
Expected term (in years)		1.79			2.29	
Dividend rate		-			-	
Fair value	$	0.99		$	2.14	

In conjunction with the securities offering transaction, the Company issued three year warrants to investment bankers to purchase 40,000 shares of the Company’s common stock at $6.33 per share. The aggregate fair value of the warrants was $94,982, which was recognized as a share-based compensation and resulted in an increase of additional paid-in capital. As such compensation was offering cost, it resulted in a reduction in additional paid-in capital. Hence, such transaction has no net impact on the Company’s financial position as of September 30, 2015.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

20. Defined contribution plan

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

The total amounts for such employee benefits, which were expensed as incurred, were $1,350,972 and $1,128,544 for the nine months ended September 30, 2015 and 2014, respectively, and $524,083 and $424,841 for the three months ended September 30, 2015 and 2014, respectively.

21. Non-controlling interest

GZ Highpower is the Company's majority-owned subsidiary which is consolidated in the Company's financial statements with a non-controlling interest recognized. GZ Highpower is engaged in processing, marketing and research of battery materials.

On May 15, 2013, GZ Highpower increased its paid-in capital from RMB15,000,000 ($2,381,293) to RMB30,000,000 ($4,807,847). SZ Highpower holds 60% of the equity interest of GZ Highpower, and four founding management members of GZ Highpower hold the remaining 40%. On November 13, 2014, GZ Highpower increased its paid-in capital from RMB30,000,000 ($4,898,119) to RMB40,000,000 ($6,530,825) and the additional capital of RMB10,000,000 was contributed by SZ Highpower. As of December 31, 2014, SZ Highpower holds 70% of the equity interest of GZ Highpower, and four founding management members of GZ Highpower hold the remaining 30%.

As of September 30, 2015 and December 31, 2014, non-controlling interest related to GZ Highpower in the consolidated balance sheet was $1,029,013 and $1,307,239, respectively.

Non-controlling interest related to GZ Highpower in the consolidated statements of operations was loss of $238,126 and $129,588 for the nine months ended September 30, 2015 and 2014, respectively, and $91,843 and $68,023 for the three months ended September 30, 2015 and 2014.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

22. 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 2015 to 2026, with options to renew the leases. All leases are on a fixed repayment basis. None of the leases includes contingent rentals. Minimum future commitments under these agreements as of September 30, 2015 are as follows:

	$
Remaining 2015	408,957
2016	1,717,659
2017	670,097
2018	346,690
2019	346,690
2020	346,690
2021 and after	1,849,013
	5,685,796

Rent expenses for the nine months ended September 30, 2015 and 2014 were $1,231,165 and $1,183,430, respectively, and $411,717 and $391,109 for the three months ended September 30, 2015 and 2014.

Capital commitments

The Company has no capital commitments as of September 30, 2015 and December 31, 2014, respectively.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

23. Segment information

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

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

	Three months ended September 30,		***Nine months ended September 30,***	
	2015 (Unaudited) $	2014 (Unaudited) $	2015 (Unaudited) $	2014 (Unaudited) $
Net sales				
Ni-MH Batteries	20,123,880	22,468,264	50,658,776	57,109,202
Lithium Batteries	16,964,109	21,069,435	55,851,039	51,971,642
New Materials	468,837	936,861	1,820,460	2,688,666
Total	37,556,826	44,474,560	108,330,275	111,769,510
Cost of Sales				
Ni-MH Batteries	16,889,621	17,843,761	40,455,557	45,357,950
Lithium Batteries	12,888,378	16,355,265	44,528,861	40,935,690
New Materials	562,152	870,414	2,009,708	2,410,314
Total	30,340,151	35,069,440	86,994,126	88,703,954
Gross Profit				
Ni-MH Batteries	3,234,259	4,624,503	10,203,219	11,751,252
Lithium Batteries	4,075,731	4,714,170	11,322,178	11,035,952
New Materials	(93,315)	66,447	(189,248)	278,352
Total	7,216,675	9,405,120	21,336,149	23,065,556

	September 30,2015 (Unaudited)	December 31,2014

	$	$
Total Assets		
Ni-MH Batteries	46,515,993	50,275,286
Lithium Batteries	84,115,350	86,339,973
New Materials	11,471,242	9,538,813
Total	142,102,585	146,154,072

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

23. Segment information (continued)

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

	Three months ended		***Nine months ended***	
	September 30,		***September 30,***	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	$	$	$	$
Net sales				
China Mainland	14,926,318	14,000,267	48,241,708	48,426,925
Asia, others	13,014,689	17,678,124	35,094,329	31,942,250
Europe	8,430,503	10,465,002	19,996,003	23,908,064
North America	934,880	2,128,707	4,275,438	6,725,849
South America	143,795	116,227	445,368	317,928
Africa	53,099	43,872	156,906	281,016
Others	53,542	42,361	120,523	167,478
	37,556,826	44,474,560	108,330,275	111,769,510

	September 30, 2015	December 31, 2014
	(Unaudited)	
	$	$
Accounts receivable		
China Mainland	17,914,478	17,282,481
Asia, others	9,242,073	8,662,503
Europe	8,305,131	5,747,058
North America	548,579	296,572
South America	91,326	211,391
Africa	74,105	81,962
Others	-	34,640
	36,175,692	32,316,607

24. Subsequent event

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

Item2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion relates to the financial condition and results of operations of Highpower International, Inc. (the “Company”) and its wholly-owned subsidiary, Hong Kong Highpower Technology Company Limited (“HKHTC”), HKHTC’s wholly-owned subsidiaries Shenzhen Highpower Technology Company Limited (“SZ Highpower”), Icon Energy System Company Limited (“ICON”) and Highpower Energy Technology (Huizhou) Company limited (“HZ Highpower”), which has been dissolved in September, 2015; SZ Highpower’s wholly-owned subsidiary, Huizhou Highpower Technology Company Limited (“HZ HTC”) and its 70%-owned subsidiary Ganzhou Highpower Technology Company Limited (“GZ Highpower”); and SZ Highpower’s and HKHTC’s jointly owned subsidiary, Springpower Technology (Shenzhen) Company Limited (“SZ Springpower”).

Forward-Looking Statements

This management’s discussion and analysis of financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes that are included in this Quarterly Report and the audited consolidated financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in our Annual Report on Form 10-K for the year ended December 31, 2014 (the “Annual Report”).

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

Overview

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

HKHTC was incorporated in Hong Kong in 2003 under the Companies Ordinance of Hong Kong. HKHTC formed HZ Highpower and SZ Springpower in 2008. HZ Highpower has not yet commenced business operations as of August 12, 2014. On October 8, 2013, SZ Springpower further increased its registered capital to $15,000,000. SZ Highpower holds 69.97% of the equity interest of SZ Springpower, and HKHTC holds the remaining 30.03%. In February 2011, HKHTC formed another wholly-owned subsidiary, Icon Energy System Company Limited, a company organized under the laws of the PRC, which commenced operations in July 2011.

SZ Highpower was founded in 2001 in the PRC. SZ Highpower formed GZ Highpower in September 2010. As of September 30, 2015, the paid-in capital of GZ Highpower was RMB40,000,000 ($6,530,825). SZ Highpower holds 70% of the equity interest of GZ Highpower, and the four founding management members of GZ Highpower hold the remaining 30%. SZ Highpower formed HZ HTC in March 2012, which engages in the manufacture of batteries.

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

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

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

***Use of Estimates*.** The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include, but are not limited to, revenues; the allowance for doubtful receivables; recoverability of the carrying amount of inventory; fair values of financial instruments; and the assessment of deferred tax assets or liabilities. These estimates are often based on complex judgments and assumptions that management believes to be reasonable but are inherently uncertain and unpredictable. Actual results could differ from these estimates.

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

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Revenue Recognition. The Company recognizes revenue when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, delivery of the product has occurred, title and risk of loss have transferred to the customers and collectability of the receivable is reasonably assured. The majority of domestic sales contracts transfer title and risk of loss to customers upon receipt. The majority of oversea sales contracts transfer title and risk of loss to customers when goods were delivered to the carriers. Revenue is presented net of any sales tax and value added tax.

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

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

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

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

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

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

Results of Operations

The following table sets forth the consolidated statements of operations of the Company for the three and nine months ended September 30, 2015 and 2014, both in dollars and as a percentage of net sales.

Consolidated Statements of Operations

(in thousands except share and per share information)

	Three months ended September 30,								Nine months ended September 30,							
	2015				2014				2015				2014			
Net Sales	37,557		100.0	%	44,474		100.0	%	108,330		100.0	%	111,770		100.0	%
Cost of Sales	(30,340	)	(80.8	)%	(35,069	)	(78.9	)%	(86,994	)	(80.3	)%	(88,704	)	(79.4	)%
Gross profit	7,217		19.2	%	9,405		21.1	%	21,336		19.7	%	23,066		20.6	%
Research and development expenses	(1,963	)	(5.2	)%	(2,056	)	(4.6	)%	(5,635	)	(5.2	)%	(5,845	)	(5.2	)%
Selling and distribution expenses	(1,713	)	(4.6	)%	(1,698	)	(3.8	)%	(5,109	)	(4.7	)%	(4,823	)	(4.3	)%
General and administrative expenses	(3,296	)	(8.8	)%	(3,295	)	(7.4	)%	(9,744	)	(9.0	)%	(10,179	)	(9.1	)%
Foreign currency transaction gain (loss)	1,458		3.9	%	(15	)	(0.03	)%	1,902		1.8	%	334		0.3	%
Gain (loss) on derivative instruments	-		-		60		0.1	%	-		-		(56	)	(0.1	)%
Income from operations	1,703		4.5	%	2,401		5.4	%	2,750		2.5	%	2,497		2.2	%
Gain (loss) on change of fair value of warrant liability	511		1.4	%	(1,286	)	(2.9	)%	942		0.9	%	(1,212	)	(1.1	)%
Other income	155		0.4	%	590		1.3	%	742		0.7	%	1,494		1.3	%
Interest expenses	(247	)	(0.7	)%	(459	)	(1.0	)%	(791	)	(0.7	)%	(1,528	)	(1.4	)%
	2,122		5.7	%	1,246		2.8	%	3,643		3.4	%	1,251		1.1	%

Income before taxes																
Income tax expenses	(271	)	(0.7	)%	(440	)	(1.0	)%	(194	)	(0.2	)%	(629	)	(0.6	)%
Net income	1,851		4.9	%	806		1.8	%	3,449		3.2	%	622		0.6	%
Less: net loss attributable to non-controlling interest	(92	)	(0.2	)%	(68	)	(0.2	)%	(238	)	(0.2	)%	(130	)	(0.1	)%
Net income attributable to the company	1,943		5.2	%	874		2.0	%	3,687		3.4	%	752		0.7	%
Income per share of common stock attributable to the Company																
- Basic	0.13				0.06				0.24				0.05			
- diluted	0.13				0.06				0.24				0.05			
Weighted average number of common shares outstanding																
- Basic	15,101,679				15,052,158				15,098,479				14,632,491			
- diluted	15,148,887				15,590,142				15,367,542				15,045,776			

Three months ended September 30, 2015 and 2014

Net sales

We generate revenues from the sale of our Ni-MH batteries, Lithium batteries and new materials for three months ended September 30, 2015. Revenues by segment were as follows:

	Three months ended September 30,	
	2015	2014
	(Unaudited)	(Unaudited)
	$	$
Net sales		
Ni-MH Batteries	20,123,880	22,468,264
Lithium Batteries	16,964,109	21,069,435
New Materials	468,837	936,861
Total	37,556,826	44,474,560

Net sales for the three months ended September 30, 2015 were $37.6 million compared to $44.5 million for the three months ended September 30, 2014, a decrease of $6.9 million, or 15.6%.The decrease was due to a $4.1 million decrease in net sales of our lithium batteries (resulting from a 10.4 % decrease in the volume, measured in ampere hour, of batteries sold and a 10.1% decrease in the average selling price of such batteries), a $2.3 million decrease in net sales of our Ni-MH batteries (resulting from a 6.1% decrease in the number of Ni-MH battery units sold and a 4.6% decrease in the average selling price of such batteries) and a $50.0% decrease in revenue from our new material business.

Cost of sales

Our cost of goods sold is comprised of raw materials, labor cost (production-related workers), depreciation and amortization of production-related equipment, utilities consumption costs and overhead allocation. Cost of goods sold by segment was as follows:

	Three months ended September 30,	
	2015	2014
	(Unaudited)	(Unaudited)

	$	$
Cost of Sales		
Ni-MH Batteries	16,889,621	17,843,761
Lithium Batteries	12,888,378	16,355,265
New Materials	562,152	870,414
Total	30,340,151	35,069,440

Cost of sales mainly consists of nickel, cobalt, lithium derived materials, labor, and overhead. Costs of sales were $30.3 million for the three months ended September 30, 2015, as compared to $35.1 million for the comparable period in 2014. As a percentage of net sales, cost of sales increased to 80.8% for the three months ended September 30, 2015 compared to 78.9% for the comparable period in 2014.

Gross profit

Gross profit for the three months ended September 30, 2015 was $7.2 million, or 19.2% of net sales, compared to $9.4 million, or 21.1% of net sales for the comparable period in 2014. Management considers gross profit margin a key performance indicator in managing our business. Gross profit margins are usually a factor of cost of sales, product mix and demand for product. Gross profit of Ni-MH Batteries for the three months ended September 30, 2015 was 16.1% of net sales, compared to 20.6% of net sales for the comparable period in 2014, which was attribute to the decrease in average selling price. Gross profit of Lithium Batteries for the three months ended September 30, 2015 was 24%, which remains stable compared to the comparable period in 2014. The decrease of New Material gross profit margin was affected by the market price.

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 to take advantage of the strong demand for such products globally.

Research and development

Research and development expenses were $2.0 million, or 5.2% of net sales, for the three months ended September 30, 2015, as compared to $2.1 million, or 4.6% of net sales for the comparable period in 2014.

Selling and distribution expenses

Selling and distribution expenses were $1.7 million, or 4.6% of net sales, for the three months ended September 30, 2015 compared to $1.7 million, or 3.8% of net sales, for the comparable period in 2014, an increase of 0.9%. Although selling and distribution expenses are consistent for both periods, its percentage of net sales increased due to a decrease in net sales.

General and administrative expenses

General and administrative expenses were $3.3 million, or 8.8% of net sales, for the three months ended September 30, 2015, compared to $3.3 million, or 7.4% of net sales, for the comparable period in 2014.

Foreign currency transaction *gain (loss)*

We experienced a gain of $1.5 million for the three months ended September 30, 2015 and a loss of $15,369 for the three months ended September 30, 2014 on the exchange rate difference between the U.S. Dollar and the RMB. The gain in exchange rate difference was due to the depreciation of the RMB relative to the U.S. Dollar over the respective periods.

Loss/Gain on derivative instruments

We experienced no loss on derivative instruments for the three months ended September 30, 2015, as compared to a gain of $59,785 for the comparable period in 2014, which included a loss of $3,414 on settled currency forwards and a gain of $63,199 on unsettled currency forwards.

Interest expenses

Interest expenses were $246,563 for the three months ended September 30, 2015, as compared to $458,534 for the comparable period in 2014. The decrease in interest expense was due to a decrease in long-term borrowing of $2,028,725 comparing the balance as of September 30, 2015 with the comparable period in 2014.

Other income

Other income, which consists of bank interest income, government grants and sundry income, was approximately $154,904 for the three months ended September 30, 2015, as compared to approximately $590,117 for the comparable period in 2014, a decrease of $435,213.

Gain (loss) on fair value change of warrant liabilities

Gain on fair value change of warrant liabilities was $510,553 for the three months ended September 30, 2015, as compared to a loss of $1,286,335, for the comparable period in 2014. It represented the fair value change of 500,000 shares of warrants issued on April 17, 2014.

Income tax expense

During the three months ended September 30, 2015, we recorded provision for income tax expense of $270,622 as compared to income tax expense of $439,659 for the comparable period in 2014. The decrease of income tax expense was due to a decrease of income before tax from the subsidiaries within PRC.

Net income

Net income attributable to the Company (excluding net loss attributable to non-controlling interest) for the three months ended September 30, 2015 was $1.9 million, compared to net income attributable to the Company (excluding net loss attributable to non-controlling interest) of $874,167 for the comparable period in 2014.

Nine Months Ended September 30, 2015 and 2014

Net sales

We generate revenues from the sale of our Ni-MH batteries, Lithium batteries and new materials. Revenues by segment were as follows:

	Nine months ended September 30,	
	2015	2014
	(Unaudited)	(Unaudited)
	$	$
Net sales		
Ni-MH Batteries	50,658,776	57,109,202
Lithium Batteries	55,851,039	51,971,642
New Materials	1,820,460	2,688,666
Total	108,330,275	111,769,510

Net sales for the nine months ended September 30, 2015 were $108.3 million compared to $111.8 million for the nine months ended September 30, 2014, a decrease of $3.4 million, or 3.1%. The decrease was due to a $6.5 million decrease in net sales of our Ni-MH batteries (resulting from a 6.1% decrease in the number of Ni-MH battery units sold and a 5.6% decrease in the average selling price of such batteries) and a $868,206 decrease in revenue from our new material business, which was offset by a $3.9 million increase in net sales of our lithium batteries (resulting from a 11.8% increase in the volume, measured in ampere hour, of batteries sold which was partly offset a 3.9% decrease in the average selling price of such batteries). The increase in the number of lithium batteries units sold in the nine months ended September 30, 2015 was primarily attributable growth in global demand for mobile and portable products, and electrical vehicles.

Cost of sales

Our cost of goods sold is comprised of raw materials, labor cost (production-related workers), depreciation and amortization of production-related equipment, utilities consumption costs and overhead allocation. Cost of goods sold by segment was as follows:

	Nine months ended September 30,	
	2015	2014
	(Unaudited)	(Unaudited)
	$	$
Cost of Sales		
Ni-MH Batteries	40,455,557	45,357,950
Lithium Batteries	44,528,861	40,935,690
New Materials	2,009,708	2,410,314
Total	86,994,126	88,703,954

Cost of sales mainly consists of nickel, cobalt, lithium derived materials, labor, and overhead. Costs of sales were $87.0 million for the nine months ended September 30, 2015, as compared to $88.7 million for the comparable period in 2014. As a percentage of net sales, cost of sales increased to 80.3% for the nine months ended September 30, 2015 compared to 79.4% for the comparable period in 2014.

Gross profit

Gross profit for the nine months ended September 30, 2015 was $21.3 million, or 19.7% of net sales, compared to $23.1 million, or 20.6% of net sales for the comparable period in 2014. Management considers gross profit margin a key performance indicator in managing our business. Gross profit margins are usually a factor of cost of sales, product mix and demand for product. The gross profit of Ni-MH Batteries and Lithium Batteries for the nine months ended September 30, 2015 decreased slightly, which was attributable to decrease in the average selling price of such batteries. The decrease of gross profit of New material was affected by the market price.

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 to take advantage of the strong demand for such products globally.

Research and development

Research and development expenses were approximately $5.6 million, or 5.2% of net sales, for the nine months ended September 30, 2015 as compared to approximately $5.8 million, or 5.2% of net sales, for the comparable period in 2014.

Selling and distribution expenses

Selling and distribution expenses were $5.1 million, or 4.7% of net sales, for the nine months ended September 30, 2015 compared to $4.8 million, or 4.3% of net sales, for the comparable period in 2014, an increase of 5.9%. Selling and distribution expenses increased due to the expansion of our sales force and marketing activities, participation in industry trade shows, and international travel to promote and sell our products globally.

General and administrative expenses

General and administrative expenses were $9.7 million, or 9.0%of net sales, for the nine months ended September 30, 2015, compared to $10.2 million, or 9.1% of net sales, for the comparable period in 2014. The primary reason for the decrease was due to non-cash share-based compensation expense of $535,761, down from $1.1 million in the first three quarters of 2014.

Foreign currency transaction gain

We experienced a gain of $1.9 million for the nine months ended September 30, 2015 and a gain of $334,326 for the nine months ended September 30, 2014 on the exchange rate difference between the U.S. Dollar and the RMB. The gain in exchange rate difference was due to the depreciation of the RMB relative to the U.S. Dollar over the respective periods.

Loss (gain) on derivative instruments

We experienced no loss on derivative instruments for the nine months ended September 30, 2015, as compared to a loss of $56,349 for the comparable period in 2014, which included a gain of $11,400 on settled currency forwards and a loss of $67,749 on unsettled currency forwards.

Interest expenses

Interest expenses were $790,681 for the nine months ended September 30, 2015, as compared to $1.5 million for the comparable period in 2014. The decrease in interest expense was due to a decrease in long-term borrowing of $2,028,725 comparing the balance as of September 30, 2015 with the comparable period in 2014.

Other income

Other income, which consists of bank interest income, government grants and sundry income, was approximately $742,051 for the nine months ended September 30, 2015, as compared to approximately $1.5 million for the comparable period in 2014, a decrease of $751,440. The decrease was due to a decrease of $546,146 in bank interest income.

Gain (loss) on fair value change of warrant liabilities

Gain on fair value change of warrant liabilities was $941,685 for the nine months ended September 30, 2015, as compared to a loss of $1.2 million for the nine months ended September 30, 2014. It represented the fair value change of 500,000 shares of warrants issued on April 17, 2014.

Income tax expense

During the nine months ended September 30, 2015, we recorded provision for income tax expenses of $194,206 as compared to income tax expense of $628,872 for the comparable period in 2014. The decrease of income tax expense was due to an increase of R&D cost deduction.

Net income

Net income attributable to the Company (excluding net loss attributable to non-controlling interest) for the nine months ended September 30, 2015 was $3.7 million, compared to net income attributable to the Company (excluding net loss attributable to non-controlling interest) of $751,516 for the comparable period in 2014.

Foreign Currency and Exchange Risk

Though the reporting currency is the US$, the Company maintains its financial records in the functional currency of Renminbi (“RMB”). Substantially all of our operations are conducted in the PRC and we pay the majority of our expenses in RMB. Approximately 60% of our sales are made in U.S. Dollars. During the nine months ended September 30, 2015, the exchange rate of the RMB to the U.S. Dollar devaluated 3.7% from the level at the end of December 31, 2014. Future appreciation of the RMB against the U.S. Dollar would increase our costs when translated into U.S. Dollars and could adversely affect our margins unless we make sufficient offsetting sales. Conversion of RMB into foreign currencies is regulated by the People’s Bank of China through a unified floating exchange rate system. Although the PRC government has stated its intention to support the value of the RMB, there can be no assurance that such exchange rate will not continue to appreciate significantly against the U.S. Dollar. Exchange rate fluctuations may also affect the value, in U.S. Dollar terms, of our net assets. In addition, the RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. Due to the volatility of the US Dollar to our functional currency the Company put into place a hedging program to attempt to protect it from significant changes to the US Dollar which affects the value of its US dollar receivables and sales.

Liquidity and Capital Resources

We had cash and cash equivalents of approximately $7.9 million as of September 30, 2015, as compared to $14.6 million as of December 31, 2014. Our funds are kept in financial institutions located in the PRC, which do not provide insurance for amounts on deposit. Moreover, we are subject to the regulations of the PRC which restrict the transfer of cash from the PRC, except under certain specific circumstances. Accordingly, such funds may not be readily available to us to satisfy obligations incurred outside the PRC.

To provide liquidity and flexibility in funding our operations, we borrowed amounts under bank facilities and other external sources of financing. As of September 30, 2015, we had in place general banking facilities with seven financial institutions aggregating $63.0 million. The maturity of these facilities is generally within one year. The facilities are subject to regular review and approval. Certain of these banking facilities are guaranteed by our Chief Executive Officer, Mr. Dang Yu Pan, and contain customary affirmative and negative covenants for secured credit facilities of this type. Interest rates are generally based on the banks’ reference lending rates. No significant commitment fees are required to be paid for the banking facilities. As of September 30, 2015, we had utilized approximately $35.8 million under such general credit facilities and had available unused credit facilities of $27.2 million.

For the nine months ended September 30, 2015, net cash used in operating activities was approximately $6.1 million, as compared to $11.8 million provided by operating activities for the comparable period in 2014. The net cash decrease of $17.9 million used in operating activities is primarily attributable to, among other items, an increase of $16.9 million in cash outflow from accounts payable, an increase of $1.6 million in outflow from prepayment.

Net cash used in investing activities was $7.3 million for the nine months ended September 30, 2015 compared to $5.9 million for the comparable period in 2014. The net increase of $1.4 million of cash used in investing activities was primarily attributable to an increase in cash outflow from acquisition of plant and equipment for increase Auto-equipment.

Net cash provided by financing activities was $7.2 million during the nine months ended September 30, 2015, as compared to $2.1 million used in financing activities for the comparable period in 2014. The net increase of $9.3 million in net cash provided by financing activities was primarily attributable to an increase of $25.0 million in repayment of short-term bank loans, which was partly offset by a decrease of $11.3 million in repayment of notes payable, a decrease of $4.5 million in proceed s from short-term bank loan.

For the nine months ended September 30, 2015 and 2014, our inventory turnover was 5.2 times and 5.9 times, respectively. The average days outstanding of our accounts receivable at September 30, 2015 was 85 days, as compared to 87 days at September 30, 2014. Inventory turnover and average days outstanding are key operating measures that management relies on to monitor our business. In the next 12 months, we expect to expand our research, development and manufacturing of lithium-based batteries and anticipate additional capital expenditures.

We are required to contribute a portion of our employees' total salaries to the Chinese government's social insurance funds, including medical insurance, unemployment insurance and job injuries insurance, and a housing assistance fund, in accordance with relevant regulations. Total contributions to the funds were approximately $524,083 and $424,841 for the three months ended September 30, 2015 and 2014, respectively, and $1,350,972 and $1,128,544 in the nine months ended September 30, 2015 and 2014, respectively. We expect the amount of our contribution to the government's social insurance funds to increase in the future as we expand our workforce and operations.

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

The use of working capital is primarily for the maintenance of our accounts receivable and inventory. We provide our major customers with payment terms ranging from 30 to 90 days. Additionally, our production lead time is approximately 30 to 40 days, from the inspection of incoming materials, to production, testing and packaging. We need to keep a large supply of raw materials, work-in-process and finished goods inventory on hand to ensure timely delivery of our products to customers. We use two methods to support our working capital needs: (i) paying our suppliers under payment terms ranging from 60 to 150 days; and (ii) using short-term bank loans. Upon receiving payment for our accounts receivable, we pay our short-term loans. Our working capital management practices are designed to ensure that we maintain sufficient working capital.

Recent Accounting Pronouncements

The FASB has issued ASU No. 2015-01 Income Statement-Extraordinary and Unusual Items through ASU No. 2015-16 Business Combinations, which are not expected to have a material impact on the consolidated financial statements upon adoption.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required for a smaller reporting company.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Based on an evaluation carried out as of the end of the period covered by this quarterly report, under the supervision and with the participation of our management, including our CEO and CFO, who have concluded that, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of September 30, 2015.

Changes in Internal Control over Financial Reporting

Based on the evaluation of our management as required by paragraph (d) of Rule 13a-15 of the Exchange Act, there were no changes in our internal control over financial reporting that occurred during our quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Any investment in our common stock involves a high degree of risk. Investors should carefully consider the risks described herein and in our Annual Report on Form 10-K as filed with the SEC on March 30, 2015 and all of the information contained in our public filings before deciding whether to purchase our common stock. Other than as set forth below, there have been no material revisions to the “Risk Factors” as set forth in our Annual Report on Form 10-K.

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

None.

Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

Credit Line Contract between SZ Springpower and Bank of China, Buji Sub-branch

On July 1, 2015, SZ Springpower entered into a comprehensive credit line contract with Bank of China, Buji Sub-branch, which provides for a revolving line of credit of up to RMB72,857,143 (US$11,472,662), consisting of up to RMB30,000,000 (US$4,724,037) in loans and up to RMB42,857,143 (US$6,748,625) in bank acceptances. SZ Springpower may withdraw the loan, from time to time as needed, but must make specific drawdown application on and before June 30, 2016. SZ Springpower's loan is guaranteed by SZ Highpower, HZ HTC and our Chief Executive Officer, Dang Yu Pan. The Company's buildings and a land use right in Ganzhou also serve as collateral for the loan.

The following constitute events of default by SZ Springpower under the loan agreement: failure to comply with repayment obligations under the agreement or any affiliated credit lines; failure to use borrowed funds according to the specified purposes; any statement made by SZ Springpower in the agreement is untrue or in violation of any commitments in the loan agreement or affiliated loan contracts; failure to provide an additional guarantor as required by the loan agreement; significant business difficulties or risks, deteriorated financial losses or losses of assets, or other financial crisis; violation of other rights and obligations under the agreement; or breach of covenants by SZ Springpower or any guarantor in other credit agreements with the bank or affiliated institutions of the bank.

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

Credit Line Contract between SZ Highpower and Bank of China, Buji Sub-branch

On July 13, 2015, SZ Highpower entered into a comprehensive credit line contract with Bank of China, Buji Sub-branch, which provides for a revolving line of credit of up to RMB89,500,000 (US$14,093,378), consisting of up to RMB40,000,000 (US$6,298,717) in loans, up to RMB12,000,000 (US$1,889,615) in trade financing and up to RMB37,500,000 (US$5,905,047) in bank acceptances. SZ Highpower may withdraw the loan, from time to time as needed, but must make specific drawdown application on and before September 13, 2016. SZ Highpower's loan is guaranteed by SZ Springpower and our Chief Executive Officer, Dang Yu Pan. The Company's buildings and a land use right in Huizhou also serve as collateral for the loan.

The following constitute events of default by SZ Highpower under the loan agreement: failure to comply with repayment obligations under the agreement or any affiliated credit lines; failure to use borrowed funds according to the specified purposes; any statement made by SZ Highpower in the agreement is untrue or in violation of any commitments in the loan agreement or affiliated loan contracts; failure to provide an additional guarantor as required by the loan agreement; significant business difficulties or risks, deteriorated financial losses or losses of assets, or other financial crisis; violation of other rights and obligations under the agreement; or breach of covenants by SZ Highpower or any guarantor in other credit agreements with the bank or affiliated institutions of the bank.

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

Working Capital Loan Contract between SZ Springpower and Bank of China, Buji Sub-branch

On July 14, 2015, SZ Springpower entered into a working capital loan contract with Bank of China, Buji Sub-branch providing for an aggregate loan of RMB20,000,000 (US$3,149,358) to be used by SZ Springpower to purchase raw materials. The term of the loan is 12 months from the first withdrawal date. SZ Springpower must withdraw in 30 days from July 14, 2015, after which time the bank may cancel all or part of the facility. The interest rate will float and adjust every 12 months. Upon the first withdraw and during the first floating period, the interest rate will equal the one year benchmark lending rate promulgated by the People's Bank of China, plus 1.2625%. The loan is guaranteed by SZ Highpower, HZ HTC, our Chief Executive Officer, Dang Yu Pan and. The Company's buildings and a land use right in Ganzhou also serve as collateral for the loan.

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

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

Credit Line Contract between SZ Springpower and Industrial Bank Co., Ltd. Longgang, Shenzhen branch

On July 15, 2015, SZ Springpower entered into a comprehensive credit line contract with Industrial Bank Co., Ltd., Longgang Shenzhen Sub-branch, which provides for a revolving line of credit of up to RMB60,000,000 (US$9,448,075). Up to RMB10,000,000 (US$1,574,679) may be used for a working capital, up to RMB60,000,000 (US$9,448,075) may be used for bank acceptance and up to RMB10,000,000 (US$1,574,679) may be used for export loan under mortgage of documents, although the maximum amount that the company may have outstanding under the facility at any given time is RMB60 million. SZ Springpower may withdraw the loan, from time to time as needed, but must make a specific drawdown application on or before July 15, 2016, after which time the bank may cancel all or part of the facilities. The loan is guaranteed by SZ Highpower and our Chief Executive Officer, Dang Yu Pan.

The following constitute events of default under the loan contract: any information provided by or representation or warranty made by SZ Springpower proves to have been untrue, inaccurate, incomplete or misleading; a deterioration or obvious weakening of SZ Springpower's credit standing or ability to repay the loan; a cross default under certain agreements involving SZ Springpower or a guarantor, or their related parties; SZ Springpower's violation of any obligations in an affiliated specific credit line contract; SZ Springpower's failure to timely repay the principal, interest and fees under the contract and any specific contract; SZ Springpower's suspension of payment, or failure or indication that it is unable to repay, the debt due; SZ Springpower's termination of its business, liquidation, bankruptcy, dissolution, or revocation or cancellation of it business permit ; SZ Springpower's involvement in a major business dispute or deteriorated financial situation; or the emergence of any other situation that endanger, damage, or may endanger, damage the bank's rights and benefits.

Upon the occurrence of an event of default under the CCL Agreement, the bank may: temporarily suspend or permanently terminate SZ Springpower's credit limit in whole or in part; announce the immediate expiration of all or part of the debts under the contract; terminate the contract and declare all amounts outstanding under the contract immediately due and payable; request overdue interest from SZ Springpower caused by the default; request penalty interest; or request compensation in full from SZ Springpower for the breach.

Credit Line Contract between SZ Highpower and China Minsheng Banking Co., Ltd. Shenzhen Branch

On July 16, 2015, SZ Highpower entered into a comprehensive credit line contract with China Minsheng Banking Co., Ltd. Shenzhen Branch, which provides for a revolving line of credit of up to RMB28,571,429 (US$4,499,083). The amount may be used for bank acceptance and bank guarantee, although the maximum amount that the company may have outstanding under the facility at any given time is RMB28,571,429. SZ Highpower may withdraw from each loan, from time to time as needed, but must make a specific drawdown application on or before July 16, 2016, after which time the bank may cancel all or part of the facilities. The loan is guaranteed by SZ Springpower, HZ HTC and our Chief Executive Officer, Dang Yu Pan.

The following constitute events of default by SZ Highpower under the loan agreement: the occurrence of significant business difficulties or adverse changes on the financial conditions of SZ Highpower; an adverse change in the SZ Highpower's business market; any major adjustment of relevant national policies; SZ Highpower violates any other contract or agreement concluded with others, or any commitment or warranty unilaterally made by SZ Highpower, which constitutes breach of other debts or other debts have been or may be announced acceleration by other creditor; the guarantor's guarantee capacity becomes obviously insufficient, or the guarantor violates the guarantee contract or any obligation specified in the commitments made by the guarantor; any pledged or mortgaged property is damaged or lost, and SZ Highpower fails to provide a new guarantee as required by the bank; SZ Highpower indicates directly or by its conduct that it will not perform its obligations under the contract or other specified contracts with the bank; SZ Highpower's providing false information or withholding of important financial facts (including balance sheet, profit and loss statement and other important materials), or refusal to accept the bank's supervision of the use of the loan and the company's operational and financial activities; SZ Highpower transfers its assets, withdraws funds, evades debts or has any other behavior which damages the bank's rights and interest; SZ Highpower's suffering major change in financial conditions, or involving in litigation, arbitration, administrative punishment or other judicial administrative proceedings, which may have adverse impact the execution of the contract; or any adversely affect SZ Highpower's ability to perform its obligations under the loan facility.

Upon the occurrence of an event of default under the CCL Agreement, the bank may adjust or cancel a credit line, and demand SZ Highpower to prepay all the borrowings having been withdrawn under the contract.

Working Capital Loan Contract between SZ Highpower and Bank of China, Buji Sub-branch

On August 26, 2015, SZ Highpower entered into a working capital loan contract with Bank of China, Buji Sub-branch providing for an aggregate loan of RMB20,000,000 (US$3,149,358) to be used by SZ Highpower to purchase raw materials. The term of the loan is 12 months from the first withdrawal date. SZ Highpower must withdraw in 30 days from August 26, 2015, after which time the bank may cancel all or part of the facility. The interest rate will float and adjust every 12 months. Upon the first withdraw and during the first floating period, the interest rate will equal the one year benchmark lending rate promulgated by the People's Bank of China, plus 1.2%. The loan is guaranteed by SZ Springpower and our Chief Executive Officer, Dang Yu Pan. The Company's buildings and a land use right in Huizhou also serve as collateral for the loan.

The following constitute events of default by SZ Highpower under the loan agreement: failure to comply with repayment obligations under the agreement or any affiliated credit lines contract; failure to use borrowed funds according to the specified purposes; any statement made by SZ Highpower in the agreement is untrue or in violation of any commitments in the loan agreement or affiliated loan contracts; failure to provide an additional guarantor as required by the loan agreement; significant business difficulties or risks, deteriorated financial losses or losses of assets, or other financial crisis; breach of covenants in other credit agreements with the bank or affiliated institutions of the bank; any guarantor breaches a contract or defaults under any agreement with the bank or affiliated institutions of the bank; termination of its business or engagement due to any wind-up, cancellation or bankruptcy issues;

involvement or potential involvement in significant economic disputes, litigation, arbitration or assets seizure or confiscation, or its involvement in other judicial proceedings or administrative punishment proceedings that have affected or may affect its capacity to perform its obligations under the affiliated specific credit line contract; an abnormal change in any major individual investor or key management member of SZ Highpower or such a person or entity's becoming subject to investigation or restriction by the judiciary, which have or may affect SZ Highpower's performance of obligation under affiliated specific credit line contract; Bank of China's discovery of any situation that may affect the financial position or performance capacities of SZ Highpower or a guarantor after the bank's annual review of SZ Highpower's financial position and performance; failure to provide the relevant documentation acceptable to Bank of China about the inflows and outflows of large-sum and abnormal capital in capital recovery account; or being in violation of other rights and obligations under the affiliated specific credit line contract.

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

Working Capital Loan Contract between SZ Springpower and Bank of China, Buji Sub-branch

On September 17, 2015, SZ Springpower entered into a working capital loan contract with Bank of China, Buji Sub-branch providing for an aggregate loan of RMB10,000,000 (US$1,574,679) to be used by SZ Springpower to purchase raw materials. The term of the loan is 12 months from the first withdrawal date. SZ Springpower must withdraw in 30 days from September 17, 2015, after which time the bank may cancel all or part of the facility. The interest rate will float and adjust every 12 months. Upon the first withdraw and during the first floating period, the interest rate will equal the one year benchmark lending rate promulgated by the People's Bank of China, plus 1.2%. The loan is guaranteed by SZ Highpower, HZ HTC, our Chief Executive Officer, Dang Yu Pan. The Company's buildings and a land use right in Ganzhou also serve as collateral for the loan.

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

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

Working Capital Loan Contract between SZ Highpower and Bank of China, Buji Sub-branch

On September 17, 2015, SZ Highpower entered into a working capital loan contract with Bank of China, Buji Sub-branch providing for an aggregate loan of RMB20,000,000 (US$3,149,358) to be used by SZ Highpower to purchase raw materials. The term of the loan is 12 months from the first withdrawal date. SZ Highpower must withdraw in 30 days from September 17, 2015, after which time the bank may cancel all or part of the facility. The interest rate will float and adjust every 12 months. Upon the first withdraw and during the first floating period, the interest rate will equal the one year benchmark lending rate promulgated by the People's Bank of China, plus 1.2%. The loan is guaranteed by SZ Springpower and our Chief Executive Officer, Dang Yu Pan. The Company's buildings and a land use right in Huizhou also serve as collateral for the loan.

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

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

Item 6. Exhibits

Exhibit Number	**Description of Document**
10.1	Comprehensive Credit Line Contract dated July 1, 2015 by and between Bank of China, Buji Sub-branch and Springpower Technology (Shenzhen) Company Limited (translated to English).
10.1(a)	Maximum Guarantee Contract dated July 1, 2015 by and between Bank of China, Buji Sub-branch and Shenzhen Highpower Technology (Shenzhen) Co., Ltd (translated to English).

10.1(b)	Maximum Guarantee Contract dated July 1, 2015 by and between Bank of China, Buji Sub-branch and Huizhou Highpower Technology (Shenzhen) Co., Ltd (translated to English).
10.1(c)	Maximum Guarantee Contract dated July 1, 2015 by and between Bank of China, Buji Sub-branch and Pan Dangyu (translated to English).
10.1(d)	Collateral Contract dated July 1, 2015 by and between Bank of China, Buji- Sub-branch and Ganzhou Highpower Technology Co., Ltd (translated to English).
10.2	Comprehensive Credit Line Contract dated July 13, 2015 by and between Bank of China, Buji Sub-branch and Shenzhen Highpower Technology Co., Ltd (translated to English).
10.2(a)	Maximum Guarantee Contract dated July 13, 2015 by and between Bank of China, Buji Sub-branch and Springpower Technology (Shenzhen) Company Limited (translated to English).

10.2(b)	Maximum Guarantee Contract dated July 13, 2015 by and between Bank of China, Buji Sub-branch and Pan Dangyu (translated to English).
10.2(c)	Collateral Contract about buildings in Huizhou dated July 13, 2015 by and between Bank of China, Buji-Sub-branch and Shenzhen Highpower Technology Co., Ltd (translated to English).
10.2(d)	Collateral Contract about a land use right in Huizhou dated July 13, 2015 by and between Bank of China, Buji- Sub-branch and Shenzhen Highpower Technology Co., Ltd (translated to English).
10.3	Working Capital Loan Contract dated July 14, 2015 by and between Bank of China, Buji Sub-branch and Springpower Technology (Shenzhen) Company Limited (translated to English).
10.4	Basic Credit Line Contract dated July 15, 2015 by and between Industrial Bank Co., Ltd., Longgang, Shenzhen Branch and Springpower Technology (Shenzhen) Company Limited (translated to English).
10.4(a)	Maximum Guarantee Contract dated July 15, 2015 by and between Industrial Bank Co., Ltd., Longgang, Shenzhen Branch and Pan Dangyu (translated to English).
10.4(b)	Maximum Guarantee Contract dated July 15, 2015 by and between Industrial Bank Co., Ltd., Longgang, Shenzhen Branch and Shenzhen Highpower Technology Co., Ltd (translated to English).
10.5	Comprehensive Credit Line Contract dated July 16, 2015 by and between China Minsheng Banking Co., Ltd. Shenzhen Branch and Shenzhen Highpower Technology Co., Ltd (translated to English).
10.5(a)	Maximum Guarantee Contract dated July 16, 2015 by and between China Minsheng Banking Co., Ltd. Shenzhen Branch and Springpower Technology (Shenzhen) Company Limited (translated to English).
10.5(b)	Maximum Guarantee Contract dated July 16, 2015 by and between China Minsheng Banking Co., Ltd. Shenzhen Branch and Pan Dangyu (translated to English).
10.5(c)	Maximum Guarantee Contract dated July 16, 2015 by and between China Minsheng Banking Co., Ltd. Shenzhen Branch and Huizhou Highpower Technology Co., Ltd (translated to English).
10.6	Working Capital Loan Contract dated August 26, 2015 by and between Bank of China, Buji Sub-branch and Shenzhen Highpower Technology Co., Ltd (translated to English).

10.7		Working Capital Loan Contract dated September 17, 2015 by and between Bank of China, Buji Sub-branch and Springpower Technology (Shenzhen) Company Limited (translated to English).
10.8		Working Capital Loan Contract dated September 17, 2015 by and between Bank of China, Buji Sub-branch and Shenzhen Highpower Technology Co., Ltd (translated to English).
31.1		Certification of Chief Executive Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2		Certification of Chief Financial Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	**	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document
101.SCH XBRL Taxonomy Extension Schema Document
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

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HIGHPOWER INTERNATIONAL, INC.

SIGNATURES

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

	Highpower International, Inc.
Dated: November 16, 2015	/s/ Dang Yu Pan
	By: Dang Yu Pan
	Its: Chairman of the Board and Chief Executive Officer (principal executive officer and duly authorized officer)
	/s/ Henry Sun
	By: Henry Sun
	Its: Chief Financial Officer (principal financial and accounting officer)

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