Highpower International, Inc.
Form 10-Q
November 14, 2017

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, 2017

OR

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

For The Transition Period From To

COMMISSION FILE NO. 001-34098

HIGHPOWER INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

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

Building A1, 68 Xinxia Street, Pinghu, Longgang,

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

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(86) 755-89686238

(COMPANY'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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," "smaller reporting company," and "emerging growth company" as defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x
Emerging growth company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Exchange Act). Yes ¨ No x

The registrant had 15,509,658 shares of common stock, par value $0.0001 per share, outstanding as of November 14, 2017.

HIGHPOWER INTERNATIONAL, INC.

FORM10-Q

FOR THE QUARTERLY PERIOD ENDED September 30, 2017

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Item 1. Consolidated Financial Statements

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Stated in US Dollars)

	September 30, 2017 (Unaudited) $	December 31, 2016 $
ASSETS		
Current Assets:		
Cash	11,904,511	9,324,393
Restricted cash	20,905,411	11,213,640
Accounts receivable, net	56,313,941	46,280,769
Amount due from Yipeng	-	7,517,250
Notes receivable	6,805,932	1,093,730
Prepayments and other receivables	16,175,372	6,899,872
Inventories	35,216,303	22,207,333
Total Current Assets	147,321,470	104,536,987
Property, plant and equipment, net	49,789,095	43,504,991
Land use right, net	3,718,804	3,622,435
Other assets	462,500	500,000
Deferred tax assets	1,386,829	1,477,761
Long-term investment	1,765,499	9,689,576
TOTAL ASSETS	204,444,197	163,331,750
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts payable	59,937,145	49,463,901
Deferred income	807,792	761,491
Short-term loans	10,609,112	18,776,080
Non-financial institution borrowings	10,527,424	3,741,115
Notes payable	46,124,404	30,658,000
Foreign currency derivatives liabilities	169,958	-
Amount due to Yipeng	-	1,522,313

Other payables and accrued liabilities	13,061,886	11,148,556
Income taxes payable	2,212,145	1,963,298
Total Current Liabilities	143,449,866	118,034,754
Warrant Liability	-	259
TOTAL LIABILITIES	143,449,866	118,035,013
COMMITMENTS AND CONTINGENCIES	-	-

See notes to condensed consolidated financial statements

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Stated in US Dollars)

	September 30 2017 (Unaudited) $	**December 31, 2016 $**
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, 15,476,000 shares issued and outstanding at September 30, 2017 and 15,114,991 shares issued and outstanding at December 31, 2016)	1,547	1,511
Additional paid-in capital	12,307,205	11,580,934
Statutory and other reserves	4,992,463	4,992,463
Retained earnings	41,197,147	29,266,068
Accumulated other comprehensive income (loss)	1,848,819	(873,582)
Total equity attributable to the stockholders of Highpower International Inc.	60,347,181	44,967,394
Non-controlling interest	647,150	329,343
TOTAL EQUITY	60,994,331	45,296,737
TOTAL LIABILITIES AND EQUITY	204,444,197	163,331,750

See notes to condensed consolidated financial statements

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Stated in US Dollars)

	Three months ended September 30,		***Nine months ended September 30,***	
	2017 (Unaudited) $	2016 (Unaudited) $	2017 (Unaudited) $	2016 (Unaudited) $
Net sales	71,405,560	54,142,916	164,972,338	119,972,281
Cost of sales	(57,845,224)	(40,475,820)	(129,405,402)	(92,784,475)
Gross profit	13,560,336	13,667,096	35,566,936	27,187,806
Research and development expenses	(2,433,928)	(3,029,628)	(6,385,144)	(6,688,397)
Selling and distribution expenses	(1,859,762)	(1,881,277)	(5,220,985)	(4,955,708)
General and administrative expenses	(3,959,731)	(5,935,907)	(10,034,694)	(12,254,520)
Foreign currency transaction (loss) gain	(816,593)	126,732	(1,645,095)	636,609
Loss on derivative instruments	(146,481)	-	(146,481)	-
Total operating expenses	(9,216,495)	(10,720,080)	(23,432,399)	(23,262,016)
Income from operations	4,343,841	2,947,016	12,134,537	3,925,790
Changes in fair value of warrant liability	-	(11,150)	259	115,396
Other income	94,775	505,928	949,233	1,717,803
Equity in earnings of investee	1,087	218,903	106,412	218,903
Gain on dilution in equity method investee	5,071	-	496,396	-
Gain on sales of long-term investment	1,664,377	-	1,664,377	-
Interest income (expenses)	57,663	(341,520)	(926,185)	(1,051,914)
Income before taxes	6,166,814	3,319,177	14,425,029	4,925,978
Income taxes expenses	(1,013,919)	(769,065)	(2,197,392)	(978,882)
Net income	5,152,895	2,550,112	12,227,637	3,947,096
Less: net income (loss) attributable to non-controlling interest	128,702	(101,194)	296,558	(413,384)
Net income attributable to the Company	5,024,193	2,651,306	11,931,079	4,360,480
Comprehensive income				
Net income	5,152,895	2,550,112	12,227,637	3,947,096
Foreign currency translation gain (loss)	1,258,937	171,574	2,743,650	(1,542,704)
Comprehensive income	6,411,832	2,721,686	14,971,287	2,404,392
	139,461	(103,831)	317,807	(429,713)

Less: comprehensive income (loss) attributable to non-controlling interest				
Comprehensive income attributable to the Company	6,272,371	2,825,517	14,653,480	2,834,105
Earnings per share of common stock attributable to the Company				
- Basic	0.33	0.18	0.78	0.29
- Diluted	0.32	0.18	0.77	0.29
Weighted average number of common stock outstanding				
- Basic	15,369,674	15,103,007	15,270,898	15,102,121
- Diluted	15,518,764	15,115,409	15,563,012	15,104,914

See notes to condensed consolidated financial statements

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in US Dollars)

	Nine Months Ended September 30,	
	2017	2016
	(Unaudited)	(Unaudited)
	$	$
Cash flows from operating activities		
Net income	12,227,637	3,947,096
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,792,178	3,735,353
Allowance for doubtful accounts	48,866	1,661,968
Loss on disposal of property, plant and equipment	57,277	197,848
Deferred income tax	153,625	(63,934)
Loss on derivative instruments	166,387	-
Equity in earnings of investee	(106,412)	(218,903)
Gain on dilution in equity method investee	(496,396)	-
Gain on sales of long-term investment	(1,664,377)	-
Share based compensation	86,921	244,142
Changes in fair value of warrant liability	(259)	(115,396)
Changes in operating assets and liabilities:		
Accounts receivable	(8,517,071)	(13,619,029)
Notes receivable	(5,543,798)	(59,905)
Prepayments and other receivables	(8,775,985)	(230,595)
Amount due from Yipeng	7,691,900	(3,004,025)
Amount due to Yipeng	(1,557,682)	1,560,360
Inventories	(11,753,127)	(2,457,733)
Accounts payable	7,049,819	11,817,867
Deferred income	11,637	(82,697)
Other payables and accrued liabilities	1,394,691	3,745,023
Income taxes payable	156,744	119,859
Net cash flows (used in) provided by operating activities	(5,577,425)	7,177,299
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(7,297,901)	(8,474,440)
Acquisition of investment	-	(3,039,006)
Proceeds from sale of long-term investment	10,453,475	-
Net cash flows provided by (used in) investing activities	3,155,574	(11,513,446)
Cash flows from financing activities		
Proceeds from short-term loans	8,797,727	18,158,059

Repayments of short-term loans	(17,594,229)	(10,650,400)
Repayments of long-term loans	-	(1,823,403)
Proceeds from non-financial institution borrowings	10,306,243	4,558,509
Repayments of non-financial institution borrowings	(3,828,033)	-
Proceeds from notes payable	62,193,463	41,908,812
Repayments of notes payable	(48,408,417)	(39,518,955)
Proceeds from exercise of employee options	635,484	19,304
Change in restricted cash	(8,992,019)	601,759
Net cash flows provided by financing activities	3,110,219	13,253,685
Effect of foreign currency translation on cash	1,891,750	(1,290,306)
Net increase in cash	2,580,118	7,627,232
Cash - beginning of period	9,324,393	5,849,967
Cash - end of period	11,904,511	13,477,199
Supplemental disclosures for cash flow information:		
Cash paid for:		
Income taxes	1,464,592	922,957
Interest expenses	1,402,447	1,051,914
Non-cash investing and financing activity		
Offset of deferred income related to government grant and property, plant and equipment	171,403	33,019

See notes to condensed consolidated financial statements

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

1. The Company and basis of presentation

The consolidated financial statements include the financial statements of Highpower International, Inc. ("Highpower") and its 100%-owned subsidiary Hong Kong Highpower Technology Company Limited (“HKHTC”), HKHTC’s wholly-owned subsidiaries Shenzhen Highpower Technology Company Limited (“SZ Highpower”), 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”), and Icon Energy System Company Limited (“ICON”). Highpower and its direct and indirect wholly and majority owned subsidiaries are collectively referred to as the "Company".

Basis of presentation

The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and Article 8 of Regulation S-X. They do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. 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 year ended December 31, 2016, filed with the SEC on March 28, 2017.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair presentation of the Company’s consolidated financial position as of September 30, 2017, its consolidated results of operations for the three and nine months ended September 30, 2017 and cash flows for the nine months ended September 30, 2017, as applicable, have been made. Operating results for the three and nine months period ended September 30, 2017 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2017 or any future periods.

Concentrations of credit risk

No customer accounted for 10% or more of total sales during the three and nine months ended September 30, 2017 and 2016.

No supplier accounted for 10% or more of the total purchase amount during the three and nine months ended September 30, 2017 and 2016.

No customer accounted for 10% or more of the accounts receivable as of September 30, 2017 and December 31, 2016.

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

2. Summary of significant accounting policies

Long-term investment

For an investee over which the Company holds less than 20% voting interest and has no ability to exercise significant influence, the investments are accounted for under the cost method.

For an investee over which the Company has the ability to exercise significant influence, but does not have a controlling interest, the Company accounted for those using the equity method. Significant influence is generally considered to exist when the Company has an ownership interest in the voting stock of the investee between 20% and 50%. Other factors, such as representation on the investee’s board of directors, voting rights and the impact of commercial arrangements, are also considered in determining whether the equity method of accounting is appropriate.

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than temporary. As of September 30, 2017, management believes no impairment charge is necessary.

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 Highpower's other direct and indirect wholly and majority owned 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 earnings for the period in which the transaction settled.

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 accumulated other comprehensive income (loss).

Fair value of financial instruments

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

ASC Topic 820 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.

ASC Topic 820 establishes a fair value hierarchy that requires maximizing the use of observable inputs and minimizing the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

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

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

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

Derivatives

From time to time the Company may utilize foreign currency forward contracts to reduce the impact of foreign currency exchange rate risk. Management considered that the foreign currency forwards did not meet the criteria for designated hedging instruments and hedged transactions to qualify for cash flow hedge or fair value hedge accounting. The currency forwards therefore are accounted for as derivatives, with fair value changes reported as gain (loss) of derivative instruments in the statements of operations. The derivatives liability is recognized in the balance sheet at the fair value (level 2).

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Warrant liability

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 income. The warrant liability is recognized in the balance sheet at the fair value (level 3). The fair value of these warrants has been determined using the Black-Scholes pricing mode. 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. The Company revalued the warrants utilizing a binomial model as of December 31, 2016 with no material difference in the value. The warrants expired on April 17, 2017.

Recently issued accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which was subsequently modified in August 2015 by ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. This guidance will be effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2017. The core principle of ASU No. 2014-09 is that companies should recognize revenue when the transfer of promised goods or services to customers occurs in an amount that reflects what the company expects to receive. It requires additional disclosures to describe the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. In 2016, the FASB issued additional ASUs that clarify the implementation guidance on principal versus agent considerations (ASU 2016-08), on identifying performance obligations and licensing (ASU 2016-10), and on narrow-scope improvements and practical expedients (ASU 2016-12) as well as on the revenue recognition criteria and other technical corrections (ASU 2016-20). In 2017, the FASB issued Accounting Standards Update (ASU) 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), which was originally issued in ASU 2014-09. The amendments in this Update require that an entity to initially measure a retained non-controlling interest in a nonfinancial asset at fair value consistent with a how a retained non-controlling interest in a business is measured.

During 2016, the Company made significant progress toward its evaluation of the potential changes from adopting the new standard on its future financial reporting and disclosures. The Company has established a cross-functional implementation team on assessment on the five-step model of the new standard to its revenue contracts. The adoption of this guidance is not expected to have a material effect on our result of operations, financial position or liquidity. Management currently anticipates using the modified retrospective method as of January 1, 2018.

On February 25, 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). It requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company is currently evaluating the impact of adopting ASU 2016-02 on its consolidated financial statements.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows (Topic 230). The amendments in this update provide guidance on eight specific cash flow issue. It applies to all entities. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

In October 2016, the FASB issued Accounting Standards Update (ASU) 2016-16, Income Taxes (Topic 740). The amendments in this Update is to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory and align the recognition of income tax consequences for intra-entity transfers of assets other than inventory with International Financial Reporting Standards (IFRS). Public business entities should apply the amendments in ASU 2016-16 for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230). The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the consolidated financial position, statements of operations and cash flows.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

3. Accounts receivable, net

	September 30, 2017 (Unaudited)	December 31, 2016
	$	$
Accounts receivable	59,442,266	49,460,347
Less: allowance for doubtful accounts	3,128,325	3,179,578
	56,313,941	46,280,769

4. Inventories

	September 30, 2017 (Unaudited)	December 31, 2016
	$	$
Raw materials	12,428,760	6,492,755
Work in progress	9,313,919	4,878,856
Finished goods	13,127,624	10,608,180
Packing materials	28,667	21,083
Consumables	317,333	206,459
	35,216,303	22,207,333

5. Property, plant and equipment, net

	September 30, 2017 (Unaudited)	December 31, 2016
	$	$
Cost		
Construction in progress	1,246,333	715,188
Furniture, fixtures and office equipment	5,607,264	4,025,635
Leasehold improvement	6,831,474	5,865,909
Machinery and equipment	33,341,553	27,526,572
Motor vehicles	1,604,552	1,496,628
Buildings	22,849,869	21,797,158
	71,481,045	61,427,090
Less: accumulated depreciation	21,691,950	17,922,099

	49,789,095	43,504,991

The Company recorded depreciation expenses of $3,688,755 and $3,629,817 for the nine months ended September 30, 2017 and 2016, respectively, and $1,327,273 and $1,214,256 for the three months ended September 30, 2017 and 2016, respectively.

During the nine months ended September 30, 2017, the Company deducted deferred income related to government grants of $171,403 on the carrying amount of property, plant and equipment. During the year ended December 31, 2016, the Company deducted deferred income related to government grants of $229,951 in calculating the carrying amount of property, plant and equipment.

The real estate properties and buildings in Huizhou amounting to $11,687,406 and $11,398,423 have been pledged as collateral for short-term loans and bank acceptance bills drawn under certain lines of credit as of September 30, 2017 and December 31, 2016, respectively.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

6. Long-term investment

On June 30, 2016, the Company entered into an Equity Transfer and Capital Increase and Supplementary Agreements (collectively, the “2016 Equity Purchase Agreement”) with Huizhou Yipeng Energy Technology Co. Ltd. ("Yipeng") and its shareholders. As of December 31, 2016, the Company has invested an aggregate of RMB65.0 million (approximately $9.8 million) in exchange for 35.4% of the equity interest of Yipeng, which was recorded under the equity method as of December 31, 2016.

On May 5, 2017, the Company entered into an Agreement for Equity Transfer and Capital Increase (“Equity Transfer Agreement”) with a third party, Xiamen Jiupai Yuanjiang New Power Equity Investment Partnership ("New Power"). Pursuant to the terms of the Equity Transfer Agreement, the Company will sell 25,145,834 shares in Yipeng to New Power for RMB71.0 million (the "Consideration", approximately $10.7 million) in cash and New Power will invest RMB60.0 million for a 20% equity interest in Yipeng (collectively, the “Transaction”). After the Transaction, the Company’s equity ownership in Yipeng will decrease from 35.4% to 4.654%, and the Company will lose the ability to exercise significant influence over Yipeng and discontinue the use of equity method accounting.

On June 8, 2017, Yipeng completed the business registration on equity issuance to New Power for RMB60.0 million. On July 27, 2017, the Company received the Consideration from New Power for the sales of 25,145,834 shares in Yipeng. As of September 30, 2017, the Company held 4.654% of the equity interest of Yipeng, which was recorded under the cost method. The Company recognized gain on dilution in equity method investee of $496,396 for the nine months ended September 30, 2017 in connection with the additional equity issuance of Yipeng to New Power. The Company recognized gain on sales for $1,664,377 in connection with the sales of its shares.

The equity in earnings of investee was $1,087 and $218,903 for the three months ended September 30, 2017 and 2016, respectively. The equity in earnings of investee was $106,412 and $218,903 for the nine months ended September 30, 2017, respectively.

7. Taxation

Highpower and its direct and indirect wholly and majority owned 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%. No deferred U.S. taxes are recorded since all accumulated profits in the PRC will be permanently reinvested in the PRC.

Hong Kong

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

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

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. 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 PRC subsidiaries received NHTE status and enjoy 15% income tax rate for calendar year 2016.

SZ Highpower, ICON and GZ Highpower received the NHTE in 2014 and have reapplied for NHTE status in the second quarter of 2017. On November 2, 2017, SZ Highpower and ICON succeeded to pass NHTE status process. As a result, SZ Highpower and ICON are entitled to a preferential enterprise income tax rate of 15% for calendar year 2017. If GZ Highpower fails to obtain the approval in 2017, GZ Highpower will be subject to income tax at a rate of 25% starting for calendar year 2017.

HZ HTC received NHTE status in 2015 and SZ Springpower received NHTE status in 2016. As a result, HZ HTC and SZ Springpower are entitled to a preferential enterprise income tax rate of 15% for calendar year 2017.

The components of the provision for income taxes expenses (benefit) are:

	Three months ended September 30,		***Nine months ended September 30,***	
	2017 (Unaudited) $	2016 (Unaudited) $	2017 (Unaudited) $	2016 (Unaudited) $
Current	1,123,967	768,328	2,043,767	1,042,816
Deferred	(110,048)	737	153,625	(63,934)
Total income tax expenses	1,013,919	769,065	2,197,392	978,882

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,	
	2017 (Unaudited) $	2016 (Unaudited) $	2017 (Unaudited) $	2016 (Unaudited) $
Income before tax	6,166,814	3,319,177	14,425,029	4,925,978
Provision for income taxes at applicable income tax rate	1,529,484	910,416	3,600,675	1,319,809
Effect of preferential tax rate	(675,946)	(512,709)	(1,464,929)	(652,587)
R&D expenses eligible for super deduction	(4,571)	3,385	(447,510)	(552,146)
Non-deductible expenses	31,769	27,767	65,764	142,103
Change in valuation allowance	133,183	340,206	443,392	721,703
Effective enterprise income taxes expenses	1,013,919	769,065	2,197,392	978,882

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HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

7. Taxation (continued)

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, 2017 (Unaudited) $	December 31, 2016 $
Tax loss carry-forward	4,532,147	4,274,881
Allowance for doubtful accounts	127,442	121,932
Impairment for inventory	163,590	98,276
Difference for sales cut-off	21,271	14,245
Deferred income	121,169	114,224
Property, plant and equipment subsidized by government grant	489,652	468,313
Impairment for property, plant and equipment	59,908	76,248
Total gross deferred tax assets	5,515,179	5,168,119
Valuation allowance	(4,128,350)	(3,690,358)
Total net deferred tax assets	1,386,829	1,477,761

The deferred tax assets arising from tax loss carry-forward will expire from 2018 through 2021 if not utilized.

Valuation allowance was provided against deferred tax assets in entities where it was determined it was more likely than not that the benefits of the deferred tax assets will not be realized. The Company had deferred tax assets which consisted of tax loss carry-forwards and others, which can be carried forward to offset future taxable income. The management determines it is more likely than not that part of deferred tax assets could not be utilized, accordingly, a valuation allowance was provided as of September 30, 2017 and December 31, 2016.

8. Notes payable

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

Notes payable are mainly bank acceptance bills which are non-interest bearing and generally mature within six months. The outstanding bank acceptance bills are secured by restricted cash deposited in banks. Outstanding bank acceptance bills were $46,124,404 and $30,658,000 as of September 30, 2017 and December 31, 2016, respectively.

As of September 30, 2017, the notes receivable with a carrying amount of $1,052,742 was pledged for the issuance of bank acceptance bills.

9. Short-term loans

As of September 30, 2017 and December 31, 2016, short-term loans consisted of bank borrowings were for working capital and capital expenditure purposes and were secured by personal guarantees executed by certain directors of the Company, the time deposits with a carrying amount of $3,068,972 and $151,083, land use right with a carrying amount of $2,599,645 and $3,622,435, and the buildings with carrying amount of $9,482,182 and $11,854,452, respectively.

The loans as of September 30, 2017 were primarily obtained from two banks with interest rates ranging from 4.35% to 5.8725% per annum. The loans as of December 31, 2016 were primarily obtained from four banks with interest rates ranging from 4.35% to 5.87% per annum, respectively. The interest expenses were $700,708 and $631,211 for the nine months ended September 30, 2017 and 2016, respectively. The interest expenses were $163,552 and $209,931 for the three months ended September 30, 2017 and 2016, respectively.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

10. Non-financial institution borrowings

In April 2016, the Company obtained borrowings in an amount of RMB20 million ($3,007,835) from a third party non-financial institution and repaid RMB4 million ($601,567) and RMB16 million ($2,406,268) in October 2016 and March 2017, respectively.

In May 2016, the Company obtained borrowings in an amount of RMB10 million ($1,503,918) from a third party individual and repaid in September 2017.

In January 2017, the Company obtained borrowings in an amount of RMB60 million ($9,023,506) from a third party individual that can be repaid anytime and no later than January 10, 2018. The borrowings were used for working capital and capital expenditure purposes, and personally guaranteed by the Company's Chief Executive Officer, Mr. Dang Yu Pan. The interest rate for the borrowings is 5.66% per annum.

In May 2017, the Company obtained borrowings in an amount of RMB10 million ($1,503,918) from a third party non-financial institution that can be repaid anytime and no later than December 31, 2019. The borrowing was personally guaranteed by the Company's Chief Executive Officer, Mr. Dang Yu Pan. The interest rate for the borrowings is 5.655% per annum.

The interest expense of the above borrowings was $468,817 and $99,832 for the nine months ended September 30, 2017 and 2016, respectively. The interest expense of the above borrowings was $171,064 and $66,927 for the three months ended September 30, 2017 and 2016, respectively.

11. Earnings per share

The following table sets forth the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2017 and 2016.

	Three months ended September 30,		*Nine months ended September 30,*	
	2017 (Unaudited) $	2016 (Unaudited) $	2017 (Unaudited) $	2016 (Unaudited) $
Numerator:				
Net income attributable to the Company	5,024,193	2,651,306	11,931,079	4,360,480
Denominator:				
Weighted-average shares outstanding				
- Basic	15,369,674	15,103,007	15,270,898	15,102,121
- Dilutive effects of equity incentive awards	149,090	12,402	292,114	2,793
- Diluted	15,518,764	15,115,409	15,563,012	15,104,914
Net income per share:				
- Basic	0.33	0.18	0.78	0.29
- Diluted	0.32	0.18	0.77	0.29

695,000 and 1,235,001 options and warrants were not included in the computation of diluted earnings per share for the three months and nine months ended September 30, 2017, respectively, and 1,393,422 and 1,663,762 options and warrants were not included in the computation of diluted earnings per share for the three months and nine months ended September 30, 2016, respectively, because their effect would have been anti-dilutive under the treasury stock method.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

12. 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, 2017, 32,046 shares of common stock remained available for issuance pursuant to awards granted under the 2008 Plan.

Options Granted to Employees

	Number of Shares	Weighted Average Exercise Price $	***Remaining Contractual Term in Years***
Outstanding, January 1, 2016	786,926	3.08	6.90
Granted	190,000	2.66	-
Exercised	(13,312)	2.63	-
Forfeited	(41,678)	2.15	-
Canceled	(366,544)	3.47	-

Outstanding, December 31, 2016	555,392		2.70	7.39
Granted	665,000		4.59	-
Exercised	(246,009	)	2.58	-
Forfeited	(3,619	)	2.63	-
Canceled	(7,064	)	2.63	-
Outstanding, September 30, 2017	963,700		4.04	9.08
Exercisable, September 30, 2017	938,710		4.02	9.11

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

12. Share-based Compensation (continued)

The Company determined the estimated grant-date fair value of share options based on the Black-Scholes pricing model using the following assumptions:

	Nine months ended September 30			
	2017		2016	
Expected volatility	76.16%-76.74	%	76.98%-79.55	%
Risk-free interest rate	2.0%-2.06	%	1.21%-1.4	%
Expected term from grant date (in years)	6-6.05		5-6.05	
Dividend rate	0.00	%	0.00	%

The aggregate intrinsic value of options vested and expected to vest as of September 30, 2017 and December 31, 2016 was approximately $566,706 and $8,000, 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, 2017, the Company granted options to purchase 665,000 shares to twenty-three employees at a weighted average grant date fair value of $3.10 per share. During the nine months ended September 30, 2017, thirty-two employees exercised their options to purchase 246,009 shares of the Company’s common stock. During the nine months ended September 30, 2017, three employees resigned and their options to purchase a total of 3,619 shares of the Company’s common stock were forfeited. These employees had resigned with 17,100 shares vested, which if not exercised with 90 days after termination, will be cancelled. Of these vested shares 10,036 shares were exercised and 7,064 shares were cancelled in the period, and no outstanding and exercisable share as of September 30, 2017.

During the nine months ended September 30, 2016, the Company granted options to purchase 190,000 shares to two employees at a weighted average fair value of $1.49 per share. During the nine months ended September 30, 2016, eleven employees resigned and their options to purchase a total of 39,610 shares of the Company’s common stock were forfeited. These employees had resigned with 376,754 shares vested, which if not exercised with 90 days after termination, will be cancelled. Of these vested shares 7,340 shares were exercised and 18,635 shares were cancelled in the period, and 350,779 were outstanding and exercisable as of September 30, 2016.

Restricted stock awards

During the nine months ended September 30, 2017, the Company granted 115,000 shares of restricted stock to one employee and five members of the Board of Directors. The Restricted Stock Awards (“RSAs”) granted in 2017 had the following vesting periods, that each Award of Restricted Shares shall vest over a three-year period on the anniversary date of such grant at 30%, 30% and 40%, respectively, with the 30% cliff vesting on the first anniversary date of the grant and, thereafter on each subsequent anniversary date of grant vesting in equal installments on a 1/12th basis each month per year for the applicable percentage. RSAs granted under 2008 Plan are governed by agreements between the Company and recipients of the awards. Terms of the agreements are determined by the Compensation Committee.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

13. 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 contributions mentioned above, the Company has no legal obligation for the benefits beyond the contributions made.

The total contributions made, which were expensed as incurred, were $1,824,009 and $1,203,584 for the nine months ended September 30, 2017 and 2016, respectively, and $698,912 and $448,921 for the three months ended September 30, 2017 and 2016, respectively.

14. Commitments and contingencies

Contingencies

On January 14, 2016, FirsTrust China, Ltd ("FirsTrust") filed an amended complaint in the Delaware Chancery Court (amending its initial complaint filed February 25, 2015) naming Highpower as the defendant asserting a cause of action for breach of contract and conversion of stock, and seeking damages in the form of issuance of 150,000 shares or the value of such shares, plus interest thereon, attorneys' fees and costs and expenses. On February 4, 2016, Highpower filed an answer, affirmative defenses and counterclaim against FirsTrust asserting claims for equitable rescission, declaratory relief and breach of contract, and seeking rescission of the contract, return of the 200,000 warrants and 150,000 shares of Highpower stock previously issued to FirsTrust, plus interest, attorneys' fees and costs and expenses. On January 24, 2017, the court denied FirsTrust's motion for judgment on the pleadings. The parties are continuing with pre-trial discovery, as well as settlement discussions. The parties have stipulated to engage in a court-sponsored mediation, which is scheduled to take place on January 19, 2018. The Company believes that it has meritorious defenses and counterclaims and intends to defend and prosecute them vigorously.

From time to time, the Company is involved in legal matters arising in the ordinary course of business. While the Company believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is, or could be, involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations.

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

15. 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) Lithium Business; (ii) Ni-MH Batteries and Accessories; and (iii) New Materials.

The descriptions of the reportable segments have been extended from Lithium Batteries and Ni-MH Batteries to Lithium Business and Ni-MH Batteries and Accessories, respectively. Lithium Business mainly consists of lithium batteries, power storage system and power source solutions. Ni-MH Batteries and Accessories mainly consists of Ni-MH rechargeable batteries, sized batteries in blister packing as well as chargers and battery packs. Prior to the nine months ended September 30, 2017, the sales of products except for the batteries in the two reporting segments were insignificant.

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 were set out as follows:

	Three months ended September 30,		***Nine months ended September 30,***	
	2017 (Unaudited) $	2016 (Unaudited) $	2017 (Unaudited) $	2016 (Unaudited) $
Net sales				
Lithium Business	49,302,659	34,534,959	113,802,201	73,516,791
Ni-MH Batteries and Accessories	14,273,058	17,852,658	38,584,272	42,681,793
New Materials	7,829,843	1,755,299	12,585,865	3,773,697
Total	71,405,560	54,142,916	164,972,338	119,972,281
Cost of Sales				
Lithium Business	39,691,844	25,308,736	89,642,088	56,673,672
Ni-MH Batteries and Accessories	11,211,627	13,428,780	29,413,142	31,904,135
New Materials	6,941,753	1,738,304	10,350,172	4,206,668
Total	57,845,224	40,475,820	129,405,402	92,784,475
Gross Profit				

Lithium Business	9,610,815	9,226,223	24,160,113	16,843,119
Ni-MH Batteries and Accessories	3,061,431	4,423,878	9,171,130	10,777,658
New Materials	888,090	16,995	2,235,693	(432,971)
Total	13,560,336	13,667,096	35,566,936	27,187,806

	September 30 2017 (Unaudited) $	December 31, 2016 $
Total Assets		
Lithium Business	144,958,589	115,116,508
Ni-MH Batteries and Accessories	41,786,113	37,994,369
New Materials	17,699,495	10,220,873
Total	204,444,197	163,331,750

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

15. 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 were set out as follows:

	Three months ended September 30,		***Nine months ended September 30,***	
	2017 (Unaudited) $	2016 (Unaudited) $	2017 (Unaudited) $	2016 (Unaudited) $
Net sales				
China Mainland	40,140,175	30,591,678	94,387,905	67,976,689
Asia	24,496,337	13,848,563	50,284,507	32,123,986
Europe	6,456,220	6,954,787	14,921,627	13,479,114
North America	178,262	2,451,441	4,841,329	5,371,275
Others	134,566	296,447	536,970	1,021,217
	71,405,560	54,142,916	164,972,338	119,972,281

	September 30 2017 (Unaudited) $	December 31, 2016 $
Accounts receivable		
China Mainland	40,340,828	29,663,633
Asia	11,089,397	10,441,358
Europe	4,470,007	3,875,979
North America	394,513	2,260,840
Others	19,196	38,959
	56,313,941	46,280,769

HIGHPOWER INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Stated in US Dollars)

16. Related party balance and transaction

Related party balance

The outstanding amounts of Yipeng were as follow:

	September 30, 2017 (Unaudited) $	December 31, 2016 $
Accounts receivable	-	7,125,140
Other receivable	-	392,110
Account due from Yipeng	-	7,517,250
Accounts payable	-	1,516,557
Other payable	-	5,756
Amount due to Yipeng	-	1,522,313

Prior to July 27, 2017, Yipeng was considered as a related party of the Company (see Note 6).

Related party transaction

The details of the transactions with Yipeng were as follows:

	Period from January 1, 2017 to July 27, 2017 (Unaudited) $	Period from May 12, 2016 to September 30, 2016 (Unaudited) $	Period from July 1, 2017 to July 27, 2017 (Unaudited) $	Three Months Ended September 30, 2016 (Unaudited) $
Income:				

Sales	2,781,745	3,944,645	734,889	2,687,419
Rental income	26,687	-	8,376	-
Expenses:				
Technical support fee	-	790,622	-	790,622
Equipment rental fee	383,351	36,678	58,121	11,585

17. Subsequent event

The Company has evaluated subsequent events through the issuance of the unaudited condensed consolidated financial statements and no subsequent event is identified that would have required adjustment or disclosure in the consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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, 2016 filed with SEC on March 28, 2017 (the "Annual Report").

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not historical facts, and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. All statements, other than statements of historical fact included in this Form 10-Q including, without limitation, statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the Company's financial position, business strategy and the plans and objectives of management for future operations, are forward-looking statements. Words such as "expect," "believe," "anticipate," "intend," "estimate," "seek" and variations an similar words and expressions are intended to identify such forward-looking statements. Such forward-looking statements relate to future events or future performance, but reflect management's current beliefs, based on information currently available. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, please refer to the Risk Factors section of the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC"). The Company's securities filings can be accessed on the EDGAR section of the SEC's website at www.sec.gov. Except as expressly required by applicable securities law, the Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Overview

Net sales increased by $17.3 million or 31.9% during the third quarter of 2017 compared to the same quarter in 2016. The main driver was our lithium business, which increased by $14.8 million, or 42.8%, during the third quarter of 2017 compared to the same quarter in 2016.

Ni-MH net sales decreased by $3.6 million or 20.1% during the third quarter of 2017 compared to the same quarter in 2016, which was in line with the whole industry trend.

New Materials business net sales increased by $6.1 million or 346.1% during the third quarter of 2017 compared to the same quarter in 2016. Considering the technology and market difference between the recycling and battery businesses, we are planning to engage a leading company in China that specializes in this area as a strategic partner for GZ Highpower.

The descriptions of the reportable segments have been extended from Lithium Batteries and Ni-MH Batteries to Lithium Business and Ni-MH Batteries and Accessories, respectively. Lithium Business mainly consists of lithium batteries, power storage system and power source solutions. Ni-MH Batteries and Accessories mainly consists of Ni-MH rechargeable batteries, sized batteries in blister packing as well as chargers and battery packs. Prior to the nine months ended September 30, 2017, the sales of products except for the batteries in the two reporting segments mentioned above were insignificant.

Gross profit during the third quarter of 2017 was $13.6 million, or 19.0% of net sales, compared to $13.7 million, or 25.2% of net sales for the comparable period in 2016. This decrease was mainly due to the product mix and the high raw material price. The actions which we had taken to offset material price fluctuation expired gradually in Q3 2017. As the raw material price remains high level, we foresee the gross margin in Q4 may be lower than Q3 to around 16%-17%.

For 2018, we will continue to drive business growth. As the raw material price may be still at a high level, we will strive to balance our selling price and customer expectation carefully. At same time, we will seek to continuously improve our labor efficiency and improve material usage for better gross margin.

Critical Accounting Policies

See note 2 to the accompanying unaudited condensed consolidated financial statements for our critical accounting policies.

Results of Operations

The following table sets forth the unaudited consolidated statements of operations of the Company for the three and nine months ended September 30, 2017 and 2016, both in US$ and as a percentage of net sales.

Consolidated Statements of Operations

(Dollars in Thousands, Except Per Share Amounts)	Three months ended September 30,				Nine months ended September 30,			
	2017 (Unaudited)		2016 (Unaudited)		2017 (Unaudited)		2016 (Unaudited)	
	$	%	$	%	$	%	$	%
Net Sales	71,406	100.0%	54,143	100.0%	164,972	100.0%	119,972	100.0%
Cost of Sales	(57,845)	(81.0%)	(40,476)	(74.8%)	(129,405)	(78.4%)	(92,784)	(77.3%)
Gross profit	13,560	19.0%	13,667	25.2%	35,567	21.6%	27,188	22.7%
Research and development expenses	(2,434)	(3.4%)	(3,030)	(5.6%)	(6,385)	(3.9%)	(6,688)	(5.6%)
Selling and distribution expenses	(1,860)	(2.6%)	(1,881)	(3.5%)	(5,221)	(3.2%)	(4,956)	(4.1%)
General and administrative expenses	(3,960)	(5.5%)	(5,936)	(11.0%)	(10,035)	(6.1%)	(12,255)	(10.2%)
Foreign currency transaction (loss) gain	(817)	(1.1%)	127	0.2%	(1,645)	(1.0%)	637	0.5%
Loss on derivative instruments	(146)	(0.2%)			(146)	(0.1%)		
Income from operations	4,344	6.1%	2,947	5.4%	12,135	7.4%	3,926	3.3%
Changes in fair value of warrant liability	-	-	(11)	0.0%	0	0.0%	115	0.1%
Other income	95	0.1%	506	0.9%	949	0.6%	1,718	1.4%
Equity in earnings of investee	1	0.0%	219	0.4%	106	0.1%	219	0.2%
	5	0.0%	-	-	496	0.3%	-	-

Gain on dilution in equity method investee								
Gain on sales of long-term investment	1,664	2.3 %	-	-	1,664	1.0 %	-	-
Interest income (expense)	58	0.1 %	(342)	(0.6 %)	(926)	(0.6 %)	(1,052)	(0.9 %)
Income before taxes	6,167	8.6 %	3,319	6.1 %	14,425	8.7 %	4,926	4.1 %
Income tax expenses	(1,014)	(1.4 %)	(769)	(1.4 %)	(2,197)	(1.3 %)	(979)	(0.8 %)
Net income	5,153	7.2 %	2,550	4.7 %	12,228	7.4 %	3,947	3.3 %
Less: net income (loss) attributable to non-controlling interest	129	0.2 %	(101)	(0.2 %)	297	0.2 %	(413)	(0.3 %)
Net income attributable to the company	5,024	7.0 %	2,651	4.9 %	11,931	7.2 %	4,360	3.6 %
Diluted earnings per common stock attributable to the Company	0.32		0.18		0.77		0.29	

Net sales

Net sales for the three months ended September 30, 2017 were $71.4 million compared to $54.1 million for the comparable period in 2016, an increase of $17.3 million, or 31.9%. The increase was driven by our lithium business and recycling business, which was partially offset by Ni-MH batteries. Lithium business net sales increased by $14.8 million, or 42.8%, during the three months ended September 30, 2017, compared to the comparable period in 2016, which was due to the increase in the number of lithium batteries units sold, which was primarily attributable to the substantial growth in portable power station, digital products, smart wearable devices and notebooks. New materials business net sales increased by $6.1 million, or 346.1%, during the three months ended September 30, 2017, compared to the comparable period in 2016, which was primarily driven by increasing demand of precious metal materials. Ni-MH net sales decreased by $3.6 million, or 20.1%, during the three months ended September 30, 2017, compared to the comparable period in 2016, which was in line with the whole industry trend.

Net sales for the nine months ended September 30, 2017 were $165.0 million compared to $120.0 million for comparable period in 2016, an increase of $45.0 million, or 37.5%.

Gross profit

Gross profit for the three months ended September 30, 2017 was $13.6 million, or 19.0% of net sales, compared to $13.7 million, or 25.2% of net sales for the comparable period in 2016. This decrease was mainly due to the product mix and the high raw material price. The actions which we had taken to offset material price fluctuation expired gradually in Q3 2017.

Gross profit for the nine months ended September 30, 2017 was $35.6 million, or 21.6% of net sales, compared to $27.2 million, or 22.7% of net sales for the comparable period in 2016.

Research and development expenses

Research and development expenses were $2.4 million, or 3.4% of net sales, for the three months ended September 30, 2017, compared to $3.0 million, or 5.6% of net sales, for the comparable period in 2016.

The decrease was due to the high R&D consulting fee in the same period of 2016. The Company will continue to invest on R&D activities in the future.

Research and development expenses were $6.4 million, or 3.9% of net sales, for the nine months ended September 30, 2017, compared to $6.7 million, or 5.6% of net sales for the comparable period in 2016.

Selling and distribution expenses

Selling and distribution expenses were $1.9 million, or 2.6% of net sales, for the three months ended September 30, 2017, compared to $1.9 million, or 3.5% of net sales, for the comparable period in 2016.

Selling and distribution expenses were $5.2 million, or 3.2% of net sales, for the nine months ended September 30 2017, compared to $5.0 million, or 4.1% of net sales, for the comparable period in 2016.

The decrease of percent of net sales was attributable to optimization of our customer base.

General and administrative expenses

General and administrative expenses were $4.0 million, or 5.5% of net sales, for the three months ended September 30, 2017, compared to $5.9 million, or 11.0% of net sales, for the comparable period in 2016.

General and administrative expenses were $10.0 million, or 6.1% of net sales, for the nine months ended September 30, 2017, compared to $12.3 million, or 10.2% of net sales, for the comparable period in 2016.

The decrease was primarily due to a one-time expense of $1.7 million from the allowance for doubtful accounts during comparable period in 2016. The Company's G&A expense will remain stable though business keeps growing.

Foreign currency transaction (loss) gain

We experienced a loss of $816,953 for the three months ended September 30, 2017 and a gain of $126,732 for the comparable period in 2016 on the exchange rate difference between the US$ and the RMB.

We experienced a loss of $1.6 million for the nine months ended September 30, 2017 and a gain of $0.6 million for the nine months ended September 30, 2016 on the exchange rate difference between the US$ and the RMB.

The loss in exchange rate difference was due to the influence of the RMB relative to the US$ over the respective periods.

Loss on derivative instruments

We experienced a loss on derivative instruments of $146,481 for the three and nine months ended September 30, 2017.

Other income

Other income was $94,775 for the three months ended September 30, 2017, compared to $505,928 for the comparable period in 2016.

Other income was approximately $0.9 million for the nine months ended September 30, 2017, compared to approximately $1.7 million for the comparable period in 2016.

Other income consists of government grants and sundry income.

Equity in earnings of investee

Equity in earnings of an equity method investee (Yipeng) was $1,087 for the three months ended September 30, 2017, compared to $218,903 for the comparable period in 2016.

Equity in earnings of an equity method investee (Yipeng) was $106,412 for the nine months ended September 30, 2017, compared to $218,903 for the comparable period in 2016.

Gain on dilution in equity method investee

Gains on dilution in equity method investee, which was due to the equity issuance of equity method investee (Yipeng) to a third party, were $5,071 and $496,396 for the three and nine months ended September 30, 2017.

Gain on sales of long-term investment

Gain on sales of long-term investment, which was due to sale the equity of Yipeng to a third party, was $1,664,377 for the three and nine months ended September 30, 2017.

Interest income (expenses)

Interest income was $57,663 for the three months ended September 30, 2017, compared to interest expenses of $341,520 for the comparable period in 2016.

Interest expenses were $926,185 for the nine months ended September 30, 2017, compared to $1.1 million for the comparable period in 2016.

The change was mainly due to a change in classification of this item.

Income tax expenses

During the three months ended September 30, 2017, we recorded provision for income tax expense of $1.0 million compared to $769,065 for the comparable period in 2016.

During the nine months ended September 30, 2017, we recorded provision for income tax expense of $2.2 million compared to $1.0 million for the comparable period in 2016.

Net income

Net income attributable to the Company (excluding net income attributable to non-controlling interest) for the three months ended September 30, 2017 was 5.0 million, compared to net income attributable to the Company (excluding net loss attributable to non-controlling interest) of $2.7 million for the comparable period in 2016, an increase of $2.3 million, or 89.5%.

Net income attributable to the Company (excluding net income attributable to non-controlling interest) for the nine months ended September 30, 2017 was $11.9 million, compared to net income attributable to the Company (excluding net loss attributable to non-controlling interest) of $4.4 million for the comparable period in 2016, an increase of $7.5 million, or 173.6%.

EBITDA

EBITDA for the three months ended September 30, 2017 were $7.3 million compare to $5.0 million for the comparable period in 2016, an increase of $2.3 million, or 46.5%.

EBITDA for the nine months ended September 30, 2017 were $18.8 million compare to $10.1 million for the comparable period in 2016, an increase of $8.7 million, or 86.1%.

A table reconciling earnings before interest, income tax, depreciation and amortization ("EBITDA"), a non-GAAP financial measure, to the appropriate GAAP measure is included with the Company's financial information below. EBITDA was derived by taking earnings before interest expense (net), taxes, depreciation and amortization. The presentation of this additional information is not meant to be considered in isolation or as a substitute for results prepared in accordance with U.S. GAAP. The Company believes this non-GAAP measure is useful to investors as it provides a basis for evaluating the Company's operating results in the ordinary course of its operations. This non-GAAP measure is not based on any comprehensive set of accounting rules or principles. The Company believes that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with its results of operations as determined in accordance with U.S. GAAP and that these measures should only be used to evaluate the Company's results of operations in conjunction with, and not in lieu of, the corresponding GAAP measures.

Reconciliation of Net Income to EBITDA

	Three months ended September 30,		***Nine months ended September 30,***	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	$	$	$	$
Net income attributable to the Company	5,024,193	2,651,306	11,931,079	4,360,480
Interest (income) expense	(57,663)	341,520	926,185	1,051,914
Income taxes expenses	1,013,919	769,065	2,197,392	978,882
Depreciation and Amortization	1,362,196	1,249,157	3,792,178	3,735,353
EBITDA	7,342,645	5,011,048	18,846,834	10,126,629

Liquidity and Capital Resources

We had cash of approximately $11.9 million as of September 30, 2017, compared to $9.3 million as of December 31, 2016.

To provide liquidity and flexibility in funding our operations, we borrow funds under bank facilities and other external sources of financing. As of September 30, 2017, we had lines of credit with seven financial institutions aggregating

$74.6 million. The maturities of these facilities vary from October 2017 to July 2019. The facilities are subject to regular review and approval. Certain of these bank facilities are guaranteed by our Chief Executive Officer, Mr. Dang Yu Pan, pledged by land use right and buildings, 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 bank facilities. As of September 30, 2017, we had utilized approximately $50.6 million under such general credit facilities and had available unused credit facilities of $24.0 million.

Net cash used in operating activities was approximately $5.6 million for the nine months ended September 30, 2017, compared to net cash provided by operating activities of $7.2 million for the comparable period in 2016. The net cash increase of $12.8 million used in operating activities is primarily due to an increase of $9.3 million in cash outflow from inventories and an increase of $5.5 million in cash outflow from notes receivable.

Net cash provided by investing activities was $3.2 million for the nine months ended September 30, 2017, compared to net cash used in investing activities of $11.5 million for the comparable period in 2016. The net cash increase of $14.7 million provided by investing activities is primarily attributable to an increase of $10.5 million in cash inflow from proceeds from sale of long-term investment.

Net cash provided by financing activities was $3.1 million for the nine months ended September 30, 2017, compared to $13.3 million for the comparable period in 2016. The net decrease of $10.2 million in net cash provided by financing activities was primarily attributable to an increase of $8.9 million in cash outflow from repayment of notes payable and an increase of $6.9 million in cash outflow from repayment of short-term loans.

Our inventory turnover was 4.5 times and 6.1 times for the nine months ended September 30, 2017 and 2016, respectively. The average days outstanding of our accounts receivable was 84 days at September 30, 2017, compared to 85 days at December 31, 2016. Inventory turnover and average days outstanding of accounts receivable are key operating measures that management relies on to monitor our business.

The accounts receivable and inventory turnover ratios have critical influence on the working capital. We provide our major customers with payment terms ranging from End of Month 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 120 days; and (ii) using short-term bank loans. Upon receiving payment for our accounts receivable, we pay our short-term loans. Our working capital management practices are designed to ensure that we maintain sufficient operating capital.

Recent Accounting Pronouncements

Please refer to Note 2 (Recently issued accounting pronouncements).

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

(a) Evaluation of disclosure controls and procedures

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

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

(b) Changes in Internal Control over Financial Reporting

There were no significant changes (including corrective actions with regard to significant deficiencies) in our internal controls over financial reporting that occurred during the quarter ended September 30, 2017, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

With respect to the FirsTrust matter, the parties have stipulated to engage in a court-sponsored mediation, which is scheduled to take place on January 19, 2018.

Please refer to the Company's annual report on Form 10-K for the year ended December 31, 2016 and quarterly reports on Form 10-Q for a description of litigation and claims for the quarter ended September 30, 2017.

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 for the year ended December 31, 2016 as filed with the SEC on March 28, 2017 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 Contract Between Icon Energy System Co., Ltd. and Bank of Jiangsu, Shenzhen Sub-branch

On July 3, 2017, ICON entered into a comprehensive credit line contract with the Bank of Jiangsu, Shenzhen Sub-branch, which provides for a revolving line of credit of up to RMB10,000,000 ($1,503,917). ICON may withdraw the loan, from time to time as needed, on or before July 2, 2018. The loan is guaranteed by SZ Highpower, HZ HTC and our Chief Executive Officer, Dang Yu Pan and ZhouTao Yin. The used facility was $1,499,706 as of September 30, 2017.

The following constitute events of default under the loan contracts: an adverse change in the borrower's business market or a significant monetary policy change in the PRC; the occurrence of significant business difficulties or adverse changes on the financial conditions of the borrower; a termination of business, liquidation, restructuring, dissolution or bankruptcy by or of the borrower; the borrower's involvement in significant litigation, arbitration or administrative penalties, or its involvement in any other significant default with other creditors; the borrower indicates directly or by its conduct that it will not perform its obligations under the contract or other contracts with the bank; the borrower's providing of false materials or withholding of important financial or operational facts; the borrower's failure to perform its obligations under the contract or the affiliated specific credit line contract executed in connection with specific drawdowns; the borrower's violation of other contracts with the bank; the borrower's transfer of assets, retrieval of capital, denial of indebtedness or other actions that may adversely affect the bank's rights; the borrower's involvement in illegal operations; the borrower's change in corporate structure, such as a separation, merger, amalgamation, acquisition, reorganization; the borrower's loss of commercial integrity; a change in the borrower's controlling shareholder, or the occurrence of a major event to the borrower's controlling shareholders, actual controllers, legal representative, or senior management staff, including, but not limited to, involvement in or the occurrence of illegal operations, litigation, arbitration, a deteriorated financial situation, bankruptcy or dissolution; the guarantor's breach of the contract, or guarantee agreement or the occurrence of other situations that may negatively affect the guarantor's ability to guaranty the loan; or any other circumstance affect or may affect the bank's ability to collect on the loan.

Upon the occurrence of an event of default, the bank may: adjust the maximum amount of the line of credit and/or cancel the comprehensive contract, terminate the unused portion of the credit line.

Borrowing agreement between Icon Energy System Co., Ltd. and Bank of China, Buji Sub-branch

On September 28, 2017, ICON entered into a working capital loan contract with Bank of China, Buji Sub-branch, providing for an aggregate loan of RMB10,000,000 ($1,503,917) to be used by ICON to purchase raw materials. ICON must withdraw in 30 days from September 29, 2017. ICON must pay back the loans before the maturity day on September 29, 2018. The interest rate is 5.8725%, which equals to the one year benchmarked by interbank rates, plus 1.5725% on all outstanding loan amounts. The loan is guaranteed by the SZ Springpower, SZ Highpower, HZ HTC and our Chief Executive Officer, Dang Yu Pan. The balance of loan was $nil as of September 30, 2017.

The following constitute events of default under each 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 the borrower 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 the borrower or such a person or entity's becoming subject to investigation or restriction by the judiciary, which have or may affect the borrower'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 the borrower or a guarantor after the bank's annual review of the borrower'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 the borrower or any guarantor to rectify the event of default within a specified time period; reduce, temporarily suspend or permanently terminate the borrower's credit limit in whole or in part; temporarily suspend or permanently terminate in part or in whole the borrower'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 the borrower and the bank; require compensation from the borrower on the losses thereafter caused; hold the borrower'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 Contract Between Huizhou Highpower Technology Company, Limited and Industrial Bank Co., Ltd., Shenzhen Longgang Branch.

On September 20, 2017, HZ HTC entered into a basic credit line contract with Industrial Bank Co., Ltd., Shenzhen Longgang Branch, which provides for a revolving line of credit of up to RMB20,000,000 ($3,007,835). HZ HTC may withdraw the loan from time to time as needed on or before September 20, 2018. The loan is guaranteed by ICON, SZ Highpower, SZ Springpower and our Chief Executive Officer, Dang Yu Pan. The used facility was $834,674 as of September 30, 2017 which was used for bank acceptance.

The following constitute events of default under the loan contract: any information provided by or representation or warranty made by HZ HTC proves to have been untrue, inaccurate, incomplete or misleading; a deterioration or obvious weakening of HZ HTC's credit standing or ability to repay the loan; a cross default under certain agreements involving HZ HTC or a guarantor, or their affiliated related parties; HZ HTC's violation of any obligations in an affiliated specific credit line contract; HZ HTC's failure to timely repay the principal, interest and fees under the contract and any specific contract; HZ HTC's suspension of payment, or failure or indication that it is unable to repay, the debt due; HZ HTC's termination of its business, liquidation, bankruptcy, dissolution, or revocation or cancellation of it business permit; HZ HTC'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, the bank may: temporarily suspend or permanently terminate HZ HTC'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 HZ HTC caused by the default; request penalty interest; or request compensation in full from HZ HTC for the breach.

Borrowing agreement between Springpower Technology (Shenzhen) Co., Ltd. and Industrial and Commercial Bank of China Ltd. Shenzhen Henggang Sub-branch

On August 3, 2017, SZ Springpower entered into a working capital loan contract with Industrial and Commercial Bank of China Ltd., Shenzhen Henggang Sub-branch providing for an aggregate loan of RMB10,000,000 ($1,503,917). SZ Springpower must pay back the loans before the maturity day on July 13, 2018. The interest rate is 5%, which equals to the one year benchmarked by interbank rates, plus 0.07% on all outstanding loan amounts.The loan is guaranteed by HZ HTC, HK HTC, SZ HTC, and our Chief Executive Officer, Dang Yu Pan. The Company's building in Shenzhen also serves as collateral for the loan. The balance of loan was $nil as of September 30, 2017.

The following constitute events of default under the loan contract: SZ Springpower's failure to repay principal, interest, and other payables in accordance with the provisions specified in this contract,; or failure to fulfill any other obligations in this contract, or contrary to the statements, guarantee and commitments in this contract.; the guarantees in this contract have adversely changed to the Lender's loan, and SZ Springpower is not available to provide other guarantees approved by the lender; failure to pay off any other debts due by SZ Springpower, or failure to fulfill or breach other obligations in this contract, or likely to affect the performance of the obligations in this contract; the financial performance of the profitability, debt payment ability, operating capacity and cash flow of the Borrower exceed the agreed standards, or deterioration has been or may affect the obligations in this contract; SZ Springpower's ownership structure, operation, external investment has changed adversely, which have affected or may affect the fulfillment of the obligations in this contract; SZ Springpower involves or may involve significant economic disputes, litigation, arbitration, or asset seizure, detention or enforcement, or judicial or administrative authorities for investigation or take disciplinary measures in accordance with the laws, or illegal with relevant state regulations or policies in accordance with the laws, or exposure by media, which have affected or may affect the fulfillment of the obligations in this contract; SZ Springpower's principal individual investors, key management officer's change, disappearances or restriction of personal liberty, likely to affect the performance of the obligations in this contract; using false contracts with related parties, using no actual transaction to extract the lender's funds or credit, or evasion of lender's loan right through related party transactions; having been or may be out of business, dissolution, liquidation, business reorganizations, business license has been revoked or bankruptcy; breaches food safety, production safety, environmental protection and other environmental and social risk management related laws and regulations, regulatory requirements or industry standards, resulting in accidents, major environmental and social risk events, likely to affect the performance of the obligations in this contract; in this contract, SZ Springpower's credit rating, level of profitability, asset-liability ratio, net cash flow of operating and other indicators do not meet the credit conditions of the lender; or without the lender's written contract, pledges guarantee or provides assurance guarantees to other party, likely to affect the performance of the obligations in this contract; other adverse situations may affect in the realization of loan right in this contract.

Upon the occurrence of an event of default, the bank may: request SZ Springpower rectify the event of default within a specified time period; cancel or terminate SZ Springpower's the unused portion of the credit line and other financing arrangements in whole or in part; declare all amounts outstanding under the contract immediately due and payable; require SZ Springpower to compensate the bank for losses it incurs as a result of the event of default; or other measures permitted under applicable law or other necessary measures.

Item 6. Exhibits

Exhibit Number	Description of Document
10.1	Working Capital Loan Contract dated September 28, 2017, between Icon Energy System Co., Ltd. and Bank of China, Buji Sub-branch (translated to English).
10.2	Maximum Amount Comprehensive Credit Line Contract dated July 3, 2017, between Icon Energy System Co., Ltd. and Bank of Jiangsu, Shenzhen Sub-branch (translated to English).
10.2(a)	Maximum Amount Personal Joint Responsibility Guarantee between Dang Yu Pan and Bank of Jiangsu, Shenzhen Sub-branch (translated to English).
10.2(b)	Maximum Amount Personal Joint Responsibility Guarantee between Zhou Tao Yin and Bank of Jiangsu, Shenzhen Sub-branch (translated to English).

Exhibit Number	Description of Document
10.2(c)	Maximum Amount Guaranty Contract between Huizhou Highpower Technology Company, Limited and Bank of Jiangsu, Shenzhen Sub-branch (translated to English)
10.2(d)	Maximum Amount Guaranty Contract between Shenzhen Highpower Technology Company, Limited and Bank of Jiangsu, Shenzhen Sub-branch (translated to English).
10.3	Basic Credit Line Contract dated September 20, 2017, between Huizhou Highpower Technology Company, Limited and Industrial Bank Co., Ltd., Shenzhen Longgang Branch (translated to English).
10.3(a)	Maximum Amount Guaranty Contract between Dang Yu Pan and Industrial Bank Co., Ltd., Shenzhen Longgang Branch (translated to English).
10.3(b)	Maximum Amount Guaranty Contract between Icon Energy System Co., Ltd. and Industrial Bank Co., Ltd., Shenzhen Longgang Branch (translated to English).
10.3(c)	Maximum Amount Guaranty Contract between Shenzhen Highpower Technology Company, Limited and Industrial Bank Co., Ltd., Shenzhen Longgang Branch (translated to English).
10.3(d)	Maximum Amount Guaranty Contract between Springpower Technology (Shenzhen) Co., Ltd. and Industrial Bank Co., Ltd., Shenzhen Longgang Branch (translated to English).
10.4	Working Capital Loan Contract dated August 3, 2017, between Springpower Technology (Shenzhen) Co., Ltd. and Industrial and Commercial Bank of China Ltd., Shenzhen Henggang Sub-branch (translated to English).
10.5	Comprehensive Credit Line Supplementary Contract between Springpower Technology (Shenzhen) Co., Ltd. and Bank of China, Buji Sub-branch (translated in English).
31.1	Certification of Chief Executive Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* This exhibit shall not be deemed “filed” for purposes of Section18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

HIGHPOWER INTERNATIONAL, INC.

SIGNATURES

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

	Highpower International, Inc.	
Dated: November 14, 2017		/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/ Sunny Pan
	By:	Sunny Pan
	Its:	Chief Financial Officer (principal financial and accounting officer)

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