

**Hong Kong Highpower Technology, Inc.**  
**2008 Second Quarter Conference Call**

**Management's Prepared Remarks**

Speakers:

- George Pan, Chairman and Chief Executive Officer
  - Sam Qiu, Chief Financial Officer
  - Jason Li, General Manager
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***Forward Looking Statements***

*The following comments call contain "forward-looking statements" within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of Hong Kong Highpower Technology to differ materially from the results expressed or implied by such statements. Such risks and uncertainties include, but are not limited to, fluctuations in the cost of raw materials, the Company's dependence on major customers for a significant portion of its net sales, changes in the laws of the PRC that affect the Company's operations, the devaluation of the U.S. Dollar relative to the Renminbi, the Company's dependence on the growth in demand for portable electronic devices and the success of manufacturers of the end applications that use its battery products, and the Company's ability to successfully develop its Lithium-ion battery business. The forward-looking statements are also identified through use of the words "believe," "enable," "may," "will," "could," "intends," "estimate," "anticipate," "plan," "predict," "probable," "potential," "possible," "should," "continue," and other words of similar meaning. Actual results could differ materially from the expectations contained in forward-looking statements as a result of several factors, including regulatory approval requirements and competitive conditions. These and other factors that may result in differences are discussed in greater detail in the Company's reports and other filings with the Securities and Exchange Commission, including its most recently filed reports on Form 10-K and 10-Q. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company has no obligation to update forward-looking information.*

George Pan, Chairman and Chief Executive Officer

Thank you all for joining us today via telephone and over the Internet. I welcome you to Hong Kong Highpower Technology's very first quarterly conference call.

I would like to begin by providing you with some background on our Company. Then I will turn the call over to Sam Qiu, our Chief Financial Officer, to discuss our financial results for the second quarter. Then, Jason Li, our General Manager, will conclude by reviewing our growth initiatives and providing our financial outlook. We will then open the call to your questions.

Hong Kong Highpower technology develops, manufactures and markets nickel-metal hydride, or Ni-MH, rechargeable batteries and related products in both consumer and industrial applications. Some of the consumer uses for our products are portable electronic devices such as digital cameras, DVD players, electric razors and electric toothbrushes, and electronic toys such as radio-controlled cars. Some industrial applications that our products are used for include medical devices, industrial lighting, communications equipment, power tools and electric bikes.

Collectively, our management team brings decades of experience in all key aspects of our operations, including product design, manufacturing, and sales and marketing. Our management and directors currently own approximately 61 percent of the company. We have considerable expertise in Ni-MH batteries and technology, as well as large scale quality manufacturing. Combined, these strengths allow us to control our costs and keep pace with evolving industry standards, while maintaining the highest standard of product quality and consistency. Our products are distributed to North America, Europe and Asia, and our customers include world leading battery original equipment manufacturers like Energizer Battery, which is currently our largest customer, and UniRoss and Siemens.

We are currently a global leader in the Ni-MH rechargeable battery market, and estimate that we capture approximately 10% of the global rechargeable battery market. We are leveraging this expertise to enter the large and growing lithium-ion-based rechargeable battery market. We believe this market will provide a highly complementary product line and an incremental revenue stream to our current Ni-MH business. The Li-ion rechargeable battery business represents a sizeable market opportunity that is expected to nearly double to reach \$6.0 billion by 2012.

Our manufacturing and product development facilities are located in Shenzhen, China. This enables us to produce our products cost-effectively with low labor costs and ready access to land and raw materials. Our proximity to electronics supply chains and end-markets also afford us additional cost and cycle time advantages.

Based on our multi-faceted growth strategy, which Jason Li will discuss later in the call, we are targeting an increase in global rechargeable battery market share to 15% in 2008 and 30% by 2012.

Since our inception in 2001, we significantly increased our production capacity and distribution networks. Based on these extensive corporate and financial achievements, we determined that it was the right time to enter the U.S. capital markets and expand our opportunities with respect to investment in Hong Kong Highpower.

On June 19, 2008 we became a public company through an alternative capital markets transaction process, called a WRASP, and our stock began trading on the American Stock Exchange under the symbol HPJ. We completed our public offering of common stock on June 26, 2008.

I will now turn the call over to Sam Qiu to review our financial results. Sam?

Sam Qiu, Chief Financial Officer
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Thank you, George.

Net sales for the three months ended June 30, 2008 were \$19.0 million compared to \$20.5 million for the three months ended June 30, 2007, a decrease of 7.1%.

This year-over-year decrease was largely due to a 4% decrease in the average selling price of our battery units, which we adjusted in accordance with the fluctuating cost of nickel and the exchange rate between the U.S. Dollar and RMB, and a 3% decrease in the number of battery units sold. The 3% decrease in the number of battery units sold was due to decreased orders from our major customer, Uniross Batteries (HK) Ltd.

Net sales of \$19.0 million for the second quarter were up from \$17.8 million for the first quarter ended March 31, 2008. The quarter-over-quarter increase in net sales reflects an increase of 6% in the number of battery units sold due to increased orders from the Company's major customers including Energizer Battery Manufacturing, Inc.

Our gross profit for the second quarter of 2008 increased 18.5 percent to \$3.4 million dollars, compared with \$2.8 million dollars for the second quarter of 2007. On a sequential basis, our second quarter gross profit increased 24.6 percent, compared with \$2.7 million dollars for the first quarter of 2008.

Our gross margin was 17.7 percent for the second quarter of 2008, compared with 13.9 percent for the second quarter of 2007 and 15.2 percent for the first quarter of 2008. The lower gross margin in the 2007 and first quarter of 2008 period, reflects the substantial volatility in the market cost of nickel. This had a deep impact in gross margin because we could not initially pass along this increase in our cost of goods to our customers due to fixed-price contracts. However, after March 2007, we were able to adjust the sales price of our batteries based on the increased market cost of nickel, and our gross margin improved to a more standardized level.

Our operating expenses for the second quarter of 2008 were \$2.1 million dollars, compared with \$1.3 million dollars in the second quarter of 2007. This increase was due in part to increased general and administrative costs, including stock-based compensation, which included a stock-based business consulting fee of \$520,000. We are amortizing this cost over a period of one year on a straight line basis. We also incurred additional charges in the 2008 period related to the expansion of our workforce and the charges associated with our IPO.

We reported a loss on the exchange rate difference between the U.S. Dollar and the Renminbi of \$331,000 dollars for the three months ended June 30, 2008. This compares with losses on the exchange rate difference of \$129,000 dollars and \$505,000 dollars for the second quarter 2007 and the first quarter 2008, respectively.

For the second quarter of 2008, we recorded a provision for income taxes of \$64,000 dollars, or 0.3% of net sales. This compares with provisions for income taxes of \$96,000 dollars, or 0.4% of net sales, for the second quarter 2007, and \$167,000 dollars, or 0.9% of net sales, for first quarter 2008. The decrease was a result of a decrease in our net margin.

Our net income for the second quarter of 2008 was \$684,000 dollars, or \$0.05 per diluted share, based on 12.9 million weighted average shares outstanding. This compares with second quarter 2007 net income of \$1.3 million dollars, or \$0.13 per diluted share, based on 9.3 million weighted average shares outstanding, and first quarter 2008 net income of \$730,000 dollars, or \$0.04 per diluted share, based on 20.5 million weighted average shares outstanding. The variance in weighted average shares outstanding for the sequential periods reflects a 5-for-8 reverse stock split, which went into effect on June 19, 2008 in conjunction our stock beginning to trade on the Amex.

EBITDA for the second quarter ended June 30, 2008 totaled \$1.0 million dollars, compared with \$1.5 million dollars for the second quarter ended June 30, 2007 and \$1.3

million dollars for the first quarter ended March 31, 2008. The year-over-year decrease was primarily due to costs related to the public offering of common stock and fees associated with our Amex listing, totaling \$260,000 dollars and the increased loss on the exchange rate difference.

At June 30, 2008, we had cash and cash equivalents and restricted cash totaling \$9.9 million dollars, total assets of \$59.8 million dollars, working capital of \$6.0 million dollars and stockholders' equity of \$15.8 million dollars. At June 30, 2008, our bank credit facilities totaled \$28.6 million dollars, of which \$11.8 million dollars was available as unused credit.

I would now like to introduce Jason Li, General Manager of Hong Kong Highpower Technology to review some of our product advantages and our growth strategy. Jason?

Jason Li, General Manager
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Thank you, Sam.

Advances in electronic technology have played a significant role in the demand and evolution of rechargeable batteries. Today, more battery-powered devices incorporate increasingly sophisticated functions giving rise to increasing demand for rechargeable batteries that also have more functionality. Rechargeable batteries are now required to be more compact and lighter weight. They are also required to deliver higher performance and withstand high-energy drain applications.

The initial technology for rechargeable batteries was nickel metal cadmium. However, nickel metal cadmium batteries do not have a very high energy density and they do not have a very long life cycle. Cadmium also has a high toxicity level, which makes disposal of these batteries harmful to the environment.

Ni-MH and Li-ion batteries present a solution to the shortcomings of cadmium batteries. Both Ni-MH and Li-ion have a much higher capacity, longer life cycles and are more environmentally friendly. They are also much safer with zero toxicity, and they are more cost efficient. Based on their advantages Ni-MH and Li-ion batteries are replacing nickel metal cadmium in the rechargeable battery market, and gradually becoming the industry standard.

Our batteries are designed to respond to a number of specific market requirements, such as recyclability, high energy density, long life cycles and lower costs. Our batteries also provide a renewable energy source and promote the use of other green power technologies, as our batteries can be used in applications such as electric vehicles that reduce dependence on oil and gas.

With our substantial position in the worldwide market for Ni-MH rechargeable batteries and our entrance to the Li-ion market underway, we are well positioned for continued growth in the global rechargeable battery market. To this end, we have instituted an aggressive expansion strategy.

We are currently constructing a top-of-the-line manufacturing facility in Huizhou Industrial Park located in the Gouzhong Province in China. We believe this expansion will increase our production capacity, as well as assist us in increasing our market share and improving our margins. We expect this facility to be up and running toward the end of 2009. With the addition of this facility, we believe we will more than double our current production capacity and exceed our production benchmark of 100 million Ni-MH units for 2007.

As George mentioned, to complement our current Ni-MH battery products, as well as reduce our vulnerability to price increases in nickel, we are now producing a line of lithium-ion batteries as samples for potential customers. As we expand this portion of our business, we are targeting daily Li-ion battery production of 50,000 units in 2008.

With the new facility, we will look to increase our daily production schedule to 120,000 Li-ion units by 2010.

As we ramp-up our production capacity, we are also looking to broaden our distribution channels to further increase our sales. We are currently in the process of selecting additional distributors based on their access to markets and retail outlets that are candidates for our products. We are also working toward increasing our international sales presence and diversifying our revenue sources by entering new markets.

We are expanding our sales network of approximately 50 salespeople in China and Hong Kong, as we continue to promote Hong Kong Highpower Technology's brand development further enhance our product marketability.

Our current offering includes multiple product lines with varying sizes, capacities and voltages. To maintain our competitive position, we will continue to advance with evolving technology. As we look ahead, with our Ni-MH batteries, we plan to expand our existing product lines and devote additional resources to developing products for use in applications that span beyond our current offering, to include uses in hybrid-electric automobiles, for example.

As we make progress in our Li-ion business segment, we will also look to allocate resources toward developing a line Li-ion rechargeable batteries for higher-end, high performance application such as laptop batteries.

We are very pleased with our financial growth and our corporate achievements so far, and we are well positioned to continue to expand our leading position in the growing rechargeable battery market. With stabilization in the market price of nickel this year along with incremental growth in our lithium-ion battery business, we expect to return to a more normalized growth rate for the full year 2008. For 2008 we are targeting net sales growth of more than 20% over 2007 to \$90.0 million dollars, and we are looking to expand our worldwide rechargeable battery market share from approximately 10% in

2007 to 15% in 2008. We are also targeting gross margin of approximately 16%, net income of approximately \$3.8 million dollars and EBITDA approaching \$6 million dollars.

I would now like to open the call to your questions.

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