Hong Kong Highpower Technology, Inc.
Form 10-Q
August 13, 2009

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 June 30, 2009

OR

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

For the transition period from to

Commission File No.: 001-34098

HONG KONG HIGHPOWER TECHNOLOGY, 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, Luoshan Industrial Zone, Shanxia, 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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 o No o

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

Large accelerated filer o	Accelerated filer ¨
Non-accelerated filer o	Smaller reporting company x

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

The registrant had 13,562,596 shares of common stock, par value $0.0001 per share, outstanding as of August 11, 2009.

HONG KONG HIGHPOWER TECHNOLOGY, INC.
FORM 10-Q
For the Quarterly Period Ended June 30, 2009
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Part I. Financial Information

Item 1. Financial Statements

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Stated in US Dollars)

	As of	
	June 30, 2009 (Unaudited) $	December 31, 2008 (Audited) $
ASSETS		
Current Assets :		
Cash and cash equivalents	1,321,072	4,175,780
Restricted cash	4,119,107	4,845,478
Accounts receivable	9,723,528	8,765,593
Notes receivable	577,699	429,815
Prepaid expenses and other receivables – Note 8	3,513,894	1,732,709
Deferred charges – Stock-based compensation – Note 9	-	216,667
Inventories – Note 10	7,870,800	11,208,697
Total Current Assets	27,126,100	31,374,739
Deferred tax assets – Note 6	124,365	104,556
Plant and equipment, net – Note 11	9,014,536	7,778,477
Leasehold land, net – Note 12	3,018,289	3,050,510
Intangible asset, net – Note 13	875,000	900,000
Currency forward – Note 7	7,333	116,157
TOTAL ASSETS	40,165,623	43,324,439
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities :		
Non-trading foreign currency derivatives liabilities	65,487	293,830
Accounts payable	9,243,613	8,306,123
Other payables and accrued liabilities – Note 14	6,735,102	3,139,275
Income taxes payable	333,799	476,330
Bank borrowings – Note 15	5,644,282	14,829,228
Total Current Liabilities	22,022,283	27,044,786
COMMITMENTS AND CONTINGENCIES – Note 17		

(continued)

HONG KONG HIGHPOWER TECHNOLOGY, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Stated in US Dollars)

	As of	
	June 30, 2009 (Unaudited) $	December 31, 2008 (Audited) $
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		
Issued and outstanding: 2009 –13,562,596 shares (2008 –13,562,596 shares)	1,356	1,356
Additional paid-in capital	5,048,194	5,048,194
Accumulated other comprehensive income	2,087,155	1,595,091
Retained earnings	11,006,635	9,635,012
TOTAL STOCKHOLDERS' EQUITY	18,143,340	16,279,653
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	40,165,623	43,324,439

See accompanying notes to condensed consolidated financial statements.

HONG KONG HIGHPOWER TECHNOLOGY, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPENHENSIVE INCOME
(Stated in US Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2009 (Unaudited) $	2008 (Unaudited) $	2009 (Unaudited) $	2008 (Unaudited) $
Net sales	15,445,484	19,021,476	26,755,289	36,853,038
Cost of sales	(12,371,676)	(15,646,609)	(21,285,385)	(30,769,873)
Gross profit	3,073,808	3,374,867	5,469,904	6,083,165
Depreciation – Notes 2 and 11	(68,075)	(31,285)	(119,189)	(80,656)
Selling and distribution costs	(580,458)	(547,697)	(1,111,807)	(961,720)
General and administrative costs, including stock-based compensation	(1,046,340)	(1,571,405)	(2,149,262)	(2,341,101)
Loss on exchange rate difference	(22,865)	(330,788)	(55,589)	(835,675)
Income from operations	1,356,070	893,692	2,034,057	1,864,013
Change in fair value of currency forwards – Note7	(21,510)	-	(109,623)	29,102
Change in fair value of warrants – Note 5	-	(71,250)	-	(71,250)
Other income – Note 3	21,774	120,120	88,589	224,654
Interest expenses – Note 4	(39,377)	(194,017)	(80,497)	(400,767)
Other expenses - Note 5	(119,549)	-	(171,085)	-
Income before taxes	1,197,408	748,545	1,761,441	1,645,752
Income taxes – Note 6	(228,752)	(64,298)	(389,819)	(231,178)
Net income for the period	968,656	684,247	1,371,622	1,414,574
Other comprehensive income				
- Foreign currency translation gain	456,215	516,654	492,064	748,739
Comprehensive income	1,424,871	1,200,901	1,863,686	2,163,313
Earnings per share of common stock				
- Basic and diluted	0.07	0.05	0.10	0.11
- Diluted	0.07	0.05	0.10	0.11
Weighted average number of shares of common stock outstanding				
- Basic	13,762,217	12,899,560	13,651,389	12,849,203
- Diluted	13,812,547	12,906,483	13,703,889	12,852,665

See accompanying notes to condensed consolidated financial statements.

HONG KONG HIGHPOWER TECHNOLOGY, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in US Dollars)

	Six months ended June 30, 2009 (Unaudited) $	2008 (Unaudited) $
Cash flows from operating activities		
Net income	1,371,622	1,414,574
Adjustments to reconcile net income to net cash provided by operating activities :		
Amortization of intangible asset	25,000	25,000
Amortization of leasehold land	31,331	-
Bad debts written off	-	1,258
Depreciation	424,007	345,674
Change in fair value of currency forwards	109,623	(29,102)
Loss on disposal of plant and equipment	6,834	17,551
Share based payment	216,667	114,584
Changes in operating assets and liabilities :		
(Increase) decrease in -		
Accounts receivable	(850,943)	4,209,356
Notes receivable	(146,046)	90,315
Deposit, prepaid expenses and other receivables	(1,743,845)	(2,761,398)
Inventories	3,451,450	(4,701,466)
Increase (decrease) in -		
Accounts payable	835,955	1,973,774
Other payables and accrued liabilities	3,532,852	1,127,082
Income taxes payable	(165,841)	226,163
Net cash flows provided by operating activities	7,098,666	2,053,365
Cash flows from investing activities		
Acquisition of plant and equipment	(1,569,989)	(1,935,077)
Deposit paid for acquisition of machinery	-	-
Net cash flows used in investing activities	(1,569,989)	(1,935,077)
Cash flows from financing activities		
Proceeds from issuance of common stock	-	1,963,067
Proceeds from new short-term bank loans	2,626,113	-
Repayment of short-term bank loans	-	(1,423,993)
Repayment from other loans	(11,936,980)	2,475,343
Net (repayment) advancement of other bank borrowings	-	(670,659)
Increase (Decrease) in restricted cash	779,112	(1,026,983)
Net cash flows (used in) provided by financing activities	(8,531,755)	1,316,775

Net (decrease) increase in cash and cash equivalents	(3,003,078)	1,435,063
Effect of foreign currency translation on cash and cash equivalents	148,370	75,279
Cash and cash equivalents - beginning of period	4,175,780	1,489,262
Cash and cash equivalents - end of period	1,321,072	2,999,604

(continued)

HONG KONG HIGHPOWER TECHNOLOGY, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Stated in US Dollars)

	Six months ended June 30,	
	2009	2008
	(Unaudited)	(Unaudited)
	$	$
Supplemental disclosures for cash flow information :		
Cash paid for :		
Interest	80,497	400,767
Income taxes	-	5,015

See accompanying notes to condensed consolidated financial statements.

HONG KONG HIGHPOWER TECHNOLOGY, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

1. Organization and Basis of Presentation

Hong Kong Highpower Technology, Inc. ("Highpower" or the "Company," formerly known as SRKP 11, Inc.) was incorporated in the State of Delaware on January 3, 2006 to locate a suitable acquisition candidate to acquire.

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

As used herein, the "Company" refers to Highpower and its wholly-owned subsidiaries, unless the context indicates otherwise.

Pursuant to the Exchange Agreement, Highpower agreed to issue shares of its common stock in exchange for all of the issued and outstanding securities of HKHTC. On November 2, 2007, upon the closing of the Exchange Agreement, HKHTC had a total of 500,000 shares of common stock issued and outstanding, and Highpower issued an aggregate of 9,248,973 shares of its common stock to the shareholders of HKHTC in exchange for all of the issued and outstanding securities of HKHTC on the basis of 18.497946 shares of Highpower for each share of HKHTC. The 9,248,973 shares of common stock issued to the shareholders of HKHTC in conjunction with this transaction have been presented as outstanding for all periods presented. In addition, immediately prior to the closing of the Exchange Agreement, Highpower and certain of its stockholders agreed to cancel an aggregate of 1,597,872 shares of outstanding common stock, as a result of which there were 1,777,128 shares of common stock outstanding immediately prior to the share exchange transaction.

On November 2, 2007, concurrently with the close of the Exchange Agreement, the Company received gross proceeds of $3,120,000 in a private placement transaction (the "Private Placement"). Pursuant to subscription agreements entered into with the investors, the Company sold an aggregate of 1,772,745 shares of common stock at $1.76 per share. The investors in the Private Placement also entered into lock-up agreements pursuant to which they agreed not to sell their shares until 90 days after the Company's common stock is listed or quoted on either the New York Stock Exchange, NYSE Amex (formerly known as the American Stock Exchange), NASDAQ Global Market, NASDAQ Capital Market or the OTC Bulletin Board, when one-tenth of their shares are released from the lock-up agreement, after which their shares will automatically be released from the lock-up agreement on a monthly basis pro rata over a nine-month period. After commissions and expenses, the Company received net proceeds of approximately $2,738,000 from the Private Placement.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

1. Organization and Basis of Presentation (continued)

Immediately after the closing of the Exchange Agreement and Private Placement, the Company had 12,798,846 shares of common stock issued and outstanding. Upon the closing of the Exchange Agreement, the shareholders of HKHTC and their designees owned approximately 72.3% of the Company's issued and outstanding common stock, the pre-existing shareholders of the Company owned approximately 13.9% of the Company's issued and outstanding common stock, and the investors in the Private Placemen owned 13.8% of the Company's issued and outstanding common stock. Therefore, although HKHTC became the Company's wholly-owned subsidiary, the transaction was accounted for as a recapitalization in the form of a reverse merger of HKHTC, whereby HKHTC was deemed to be the accounting acquirer and was deemed to have retroactively adopted the capital structure of SRKP 11. Since the transaction was accounted for as a reverse merger, the accompanying consolidated financial statements reflect the historical consolidated financial statements of HKHTC for all periods presented, and do not include the historical financial statements of SRKP 11. All costs associated with the reverse merger transaction, consisting primarily of consideration paid to the previous control parties of SRKP 11 and legal and investment banking fees and costs, were expensed as incurred as a cost of the recapitalization, and have been presented as an operating cost line item entitled fees and costs related to reorganization in the statement of operations.

In January 2008, HKHTC invested $749,971 in HZ Highpower Technology Co., Ltd. ("HZ Highpower"). HZ Highpower is a wholly-owned subsidiary of HKHTC. HZ Highpower has not commenced business as of June 30, 2009.

In June 20, 2008, HKHTC invested $250,000 in Spring Power Technology (Shenzhen) Co., Ltd. ("SZ Spring Power", formerly known as Sure Power Technology (Shenzhen) Co., Ltd.) which became a wholly-owned subsidiary of HKHTC. On July 9, 2008, HKHTC invested an additional $750,000 in SZ Spring Power. SZ Spring Power commenced business in June 2008 and specializes in researching and manufacturing Lithium-ion rechargeable batteries.

On June 19, 2008, the Company effected a 5-for-8 reverse stock split of the Company's issued and outstanding shares of common stock (the Reverse Stock Split"). The par value and number of authorized shares of the common stock remained unchanged. All references to number of shares and per share amounts included in these consolidated financial statements and the accompanying notes have been adjusted to reflect the Reverse Stock Split retroactively.

On June 19, 2008, the company's common stock commenced trading on the NYSE Amex.

On June 19, 2008, the Company issued 603,750 shares of common stock upon the closing of a public offering. The Company's sale of common stock, which was sold indirectly by the Company to the public at a price of $3.25 per share, resulted in net proceeds of $1,486,400. These proceeds were net of underwriting discounts and commissions, fees for legal and auditing services, and other offering costs.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

1. Organization and Basis of Presentation (continued)

On June 19, 2008, the Company issued 160,000 shares of common stock upon the closing of the public offering. The shares are treated as compensation for investor relations services. The services provided are for the period of one year from the date of June 19, 2008.

Description of business

The subsidiaries of the Company include the following:

Name of company	Place and date of incorporation	Attributable equity interest held	Principal activities
Hong Kong Highpower Technology Co., Ltd. ("HKHTC")	Hong Kong July 4, 2003	100%	Investment holding
Shenzhen Highpower Technology Co., Ltd. ("SZ Highpower")	PRC October 8, 2002	100%	Manufacturing of batteries
HZ Highpower Technology Co., Ltd. ("HZ Highpower")	PRC January 29, 2008	100%	Inactive
Spring Power Technology (Shenzhen) Co., Ltd. ("SZ Spring Power")	PRC June 4, 2008	100%	Manufacturing of batteries

2. Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America. The consolidated financial statements for the interim periods are unaudited. In the opinion of management, these consolidated financial statements, include all adjustments, including normal recurring adjustments, necessary for their fair presentation. Interim results are not necessarily indicative of results of operations to be expected for a full year, The accompanying consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all information and footnotes necessary for a complete presentation of financial statements in conformity with accounting principles generally accepted in the United States. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Consolidation

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

Use of estimates

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

(a) Comparative amounts

Certain comparative amounts in prior periods have been reclassified to conform to the current period’s presentation. The principal reclassification related to the separate presentation of loss on exchange rate difference as an operating cost line item in the statement of operations, which was previously included in general and administrative costs. These reclassifications had no effect on reported total assets, liabilities, stockholders’ equity, or net income (loss).

Economic and political risks

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

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

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Concentrations of credit risk

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

A substantial percentage of the Company's sales are made to the following customers. Details of the customers accounting for 10% or more of total net revenue in any of the six months ended June 30, 2009 and 2008 are as follows:

	2009	2008
Company A	22%	22%
Company B	13%	*
* Less than 10%		
	35%	22%

Details of the accounts receivable from the customers with the largest receivable balances at June 30, 2009 and 2008 are as follows:

	Percentage of accounts receivable	
	June 30, 2009	June 30, 2008
Company A	24%	40%
Company B	11%	32%
Largest receivable balances	35%	72%

Cash and cash equivalents

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

Restricted cash

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

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

2 Summary of significant accounting policies (continued)

Accounts receivable

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

The Company did not experience any bad debts during the six months ended June 30, 2009 and 2008.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined on a weighted average basis and includes purchase costs, direct labor and factory overheads. There are no significant freight charges, inspection costs and warehousing costs incurred for any of the periods presented. In assessing the ultimate realization of inventories, management makes judgments as to future demand requirements compared to current or committed inventory levels. The Company's reserve requirements generally increase based on management's projected demand requirements, and decrease due to market conditions and product life cycle changes. During the six months ended June 30, 2009 and 2008, the Company did not make any allowance for slow-moving or defective inventories. The Company's production process results in a minor amount of waste materials. The Company does not record a value for the waste in its cost accounting. The Company records proceeds on an as realized basis, when the waste is sold. The Company has offset the proceeds from the sales of waste materials as a reduction of production costs. Proceeds from the sales of waste materials were approximately $18,831 and $208,052 for the six months ended June 30, 2009 and 2008 respectively. Generally, waste materials on hand at the end of a year are nominal.

Plant and equipment

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

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

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

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Plant and equipment (continued)

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

Intangible Assets and Long-Lived Assets

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

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

There was no impairment of long-lived assets for the six months ended June 30, 2009 and 2008.

Revenue recognition

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

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

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Advertising and promotion expenses

Advertising and promotion expenses are charged to expense as incurred.

Advertising and promotion expenses, which are included in selling and distribution costs, were not material for the six months ended June 30, 2009 and 2008.

Income taxes

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

Comprehensive income

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

Foreign currency translation

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

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

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HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

	June 30, 2009	June 30,2008
Quarter end RMB : US$ exchange rate	6.8186	6.8670
Average quarterly RMB : US$ exchange rate	6.8535	7.0225

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

Transactions and balances

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

Fair value of financial instruments

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

The Company is exposed to certain foreign currency risk from export sales transactions and the related accounts receivable as they will affect the future operating results of the Company.

Foreign currency derivative

From time to time the Company may utilize forward foreign currency exchange contracts to reduce the impact of foreign currency exchange rate risks. Forward contracts are cash flow hedges of the Company’s foreign currency exposures and are recorded at the contract’s fair value. The effective portion of the forward contract is initially reported in “Accumulated other comprehensive income,” a component of shareholders’ equity, with a corresponding asset or liability recorded based on the fair value of the forward contract. When the hedged transaction is recorded (generally when revenue on the associated sales contract is recognized), any unrecognized gains or losses are reclassified into results of operations in the same period. Any hedge ineffectiveness is recorded to operations in the current period. The Company measures hedge effectiveness by comparing changes in fair values of the forward contract and expected cash flows based on changes in the spot prices of the underlying currencies. Cash flows from forward contracts accounted for as cash flow hedges are classified in the same category as the cash flows from the items being hedged.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Earnings per share

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

Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statements of Financial Accounting Standards (“SFAS”) No. 123R, Share-Based Payment (“SFAS No. 123R”). Under SFAS No. 123R, the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the costs over the period the employee is required to provide service in exchange for the award, which generally is the vesting period.

Stock-based compensation expense was $216,667 and Nil and for the six months ended June 30, 2009 and 2008, respectively.

Recently issued accounting pronouncements

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” and SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51”. SFAS No. 141(R) and SFAS No. 160 require most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at “full fair value” and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS No. 141(R) will be applied to business combinations occurring after the effective date. SFAS No. 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We are currently evaluating the impact of adopting SFAS No. 160 on our unaudited condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities,” which requires enhanced disclosures about an entity’s derivative and hedging activities. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect the adoption of SFAS No.161 will have a material impact on the unaudited condensed consolidated financial statements.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

2. Summary of significant accounting policies (continued)

Recently issued accounting pronouncements (continued)

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events”, SFAS No. 165 sets forth; (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Management has evaluated the period beginning July 1, 2009 through August 13, 2009, and concluded there were no events or transactions occurring during this period that required recognition or disclosure in the unaudited condensed consolidated financial statements.

In April 2009, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position (“FSP”) FAS No. 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments.” This FSP amends Statement of Financial Accounting Standard (“SFAS”) No. 107, “Disclosures about Fair Value of Financial Instruments,” and requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. Additionally, this FSP amends Accounting Principles Board (“APB”) Opinion No. 28, “Interim Financial Reporting,” to require those disclosures in summarized financial information at interim reporting periods. These disclosures are required for interim reporting periods ending after June 15, 2009. The adoption of FSP No. FAS 107-1 and APB No. 28-1 did not have a material impact to the unaudited condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets, an amendment of SFAS No. 140”. SFAS No. 166 amends SFAS No. 140 to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement in transferred financial assets. This Statement is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions of this Statement shall be applied to transfers that occur on or after the effective date. Management does not expect the adoption of SFAS No. 166 will have a material impact to the unaudited condensed consolidated financial statements,

In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standard Codification™ (“Codification”) and the Hierarchy of Generally Accepted Accounting Principles”, effective for interim and annual reporting periods ending after September 15, 2009. This statement replaces SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles”, and establishes the Codification as the source of authoritative accounting principles used in the preparation of financial statements in conformity with generally accepted accounting principles. The Codification does not replace or affect guidance issued by the SEC or its staff. After the effective date of this statement, all non-grandfathered non-SEC accounting literature not included in the Codification will be superseded and deemed non-authoritative. Management is currently evaluating the impact of adopting SFAS No. 168 on the Company’s unaudited condensed consolidated financial statements.

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HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

3. Other income

	Three months ended June 30,		Six months ended June 30,	
	2009 (Unaudited) $	2008 (Unaudited) $	2009 (Unaudited) $	2008 (Unaudited) $
Bank interest income	7,627	41,032	32,769	79,045
Gain on forward contract	-	11,092	-	11,092
Other interest income	-	6,501	-	17,218
Sundry income	14,147	61,495	55,820	117,299
	21,774	120,120	88,589	224,654

4. Interest expenses

	Three months ended June 30,		Six months ended June 30,	
	2009 (Unaudited) $	2008 (Unaudited) $	2009 (Unaudited) $	2008 (Unaudited) $
Interest on trade related bank loan	35,203	164,479	63,403	348,460
Interest on short-term bank loans	4,174	29,538	17,094	52,307
	39,377	194,017	80,497	400,767

5. Other expenses

	Three months ended June 30,		Six months ended June 30,	
	2009 (Unaudited) $	2008 (Unaudited) $	2009 (Unaudited) $	2008 (Unaudited) $
Foreign exchange contract expenses	119,549	-	171,085	-
	119,549	-	171,085	-

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HONG KONG HIGHPOWER TECHNOLOGY, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

6. Income taxes

The components of the provision for income taxes are:

	Three months ended June 30,		Six months ended June 30,	
	2009 (Unaudited) $	2008 (Unaudited) $	2009 (Unaudited) $	2008 (Unaudited) $
PRC income taxes	238,382	17,937	408,380	288,118
Deferred tax benefit	(9,630)	46,361	(18,489)	(56,940)
	228,752	64,298	389,819	231,178

The major components of deferred tax recognized in the consolidated balance sheets as of June 30, 2009 and December 31, 2008 are as follows:

	At of	
	June 30, 2009 $ (Unaudited)	December 31, 2008 $ (Audited)
Temporary difference on:		
Reorganization of expenses	(109,134)	(93,300)
Accelerated tax depreciation on intangible asset	(15,231)	(11,256)
Deferred tax assets, net	(124,365)	(104,556)
Presented in the balance sheet:		
Net deferred tax assets	(124,365)	(104,556)

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. The adoption of the provisions of FIN 48 did not have a material effect on the Company's financial statements. As of June 30, 2009, no liability for unrecognized tax benefits was required to be recorded.

HONG KONG HIGHPOWER TECHNOLOGY, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

7. Risk Management Activities, Including Derivative

The Company selectively uses foreign currency forward contracts to offset the effects of foreign currency exchange rate changes on reported earnings, cash flow and net asset positions. The terms of these derivative contracts are generally for 12 months or less. Changes in the fair value of these derivative contracts are recorded in earnings to offset the impact of foreign currency transaction gains and losses attributable to certain third party and intercompany financial assets and liabilities with similar terms. The net gains and losses attributable to these activities are included in the statements of comprehensive income.

	At of	
	June 30, 2009 $ (Unaudited)	December 31, 2008 $ (Audited)
Currency forwards (notional amount $4 million), consisting of a put and a call	7,333	116,157

Due to the volatility of the US Dollar to the Company's functional currency, the Company has put into place a hedging program to attempt to protect it from significant changes to the US Dollar, which would affect the value of the Company's US dollar receivables and sales. At June 30, 2009, the Company had a series of currency forwards totaling a notional amount US$1,000,000 expiring from April 2009 to July 2009.

The Company recognized the following gains and losses attributable to its derivative financial instruments during the following periods:

	Three months ended June 30,		Six months ended June 30,	
	2009 (Unaudited) $	2008 (Unaudited) $	2009 (Unaudited) $	2008 (Unaudited) $
Foreign exchange contracts, net				
Loss recognized in Other expenses, net	119,549	-	171,085	-

Hedging Activities

SZ Highpower uses foreign currencies derivative instruments to manage foreign exchange resulting from fluctuations in US Dollar to the Company's functional currency (RMB). The notional amounts of these financial instruments are based on expected cash flow from operations.

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HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

7. Risk Management Activities, Including Derivative (continued)

At the inception of a derivative contract, SZ Highpower historically designated the derivative as a cash flow hedge. For all derivatives designated as cash flow hedges, SZ Highpower formally documented the relationship between the derivative contract and the hedged items, as well as the risk management objective for entering into the derivative contract. To be designated as a cash flow hedge transaction, the relationship between the derivative and the hedged items must be highly effective in achieving the offset of changes in cash flows attributable to the risk both at the inception of the derivative and on an ongoing basis. SZ Highpower historically measured hedge effectiveness on a quarterly basis and hedge accounting would be discontinued prospectively if it was determined that the derivative was no longer effective in offsetting changes in the cash flows of the hedged item. Gains and losses deferred in accumulated other comprehensive income related to cash flow hedge derivatives that became ineffective remained unchanged until the related cashflow was received. If SZ Highpower determined that it was probable that a hedged forecasted transaction would not occur, deferred gains or losses on the derivative were recognized in earnings immediately.

Derivatives, historically, were recorded on the balance sheet at fair value and changes in the fair value of derivatives were recorded each period in net income or other comprehensive income, depending on whether a derivative was designated as part of a hedge transaction and, if it was, depending on the type of hedge transaction. SZ Highpower's derivatives historically consisted primarily of cash flow hedge transactions in which SZ Highpower was hedging the variability of cash flows related to a forecasted transaction. Period to period changes in the fair value of derivative instruments designated as cash flow hedges were reported in other comprehensive income and reclassified to net income in the periods in which the contracts are settled. The ineffective portions of the cash flow hedges were reflected in net income as an increase or decrease to other income (expense). Gains and losses on derivative instruments that did not qualify for hedge accounting were also recorded as an increase or decrease to other income (expense), in the period in which they occurred. The resulting cash flows from derivatives were reported as cash flows from operating activities.

8. Prepaid expenses and other receivables

	At of	
	June 30, 2009 (Unaudited) $	December 31, 2008 (Audited) $
Purchase deposits paid	1,534,596	88,459
Advance to staff	213,278	143,595
Other deposits and prepayments	39,094	495,325
Other receivables	1,726,926	1,005,330
	3,513,894	1,732,709

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

9. Deferred charges – Stock-based compensation

	At of	
	June 30 2009 (Unaudited) $	December 31, 2008 (Audited) $
Cost		
Stock-based compensation – consulting fee	520,000	520,000
Accumulated amortization	520,000	303,333
Net	-	216,667

Amortization expenses included in general and administrative costs for the six months ended June 30, 2009 and 2008 were $216,667 and $43,334 respectively.

The Company is amortizing the $520,000 cost of stock-based compensation over a period of one year on the straight line basis.

10. Inventories

	At of	
	June 30, 2009 (Unaudited) $	December 31, 2008 (Audited) $
Raw materials	2,104,424	1,708,431
Work in progress	1,734,580	1,434,517
Finished goods	4,015,399	8,049,138
Packing materials	16,397	16,611
	7,870,800	11,208,697

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

11. Plant and equipment

	At of June 30, 2009 (Unaudited) $	December 31, 2008 (Audited) $
Cost		
Furniture, fixtures and office equipment	729,518	598,496
Leasehold improvement	1,299,012	712,120
Machinery and equipment	8,872,944	8,155,270
Motor vehicles	504,024	476,910
	11,405,498	9,942,796
Accumulated depreciation		
Furniture, fixtures and office equipment	294,102	235,613
Leasehold improvement	-	220,746
Machinery and equipment	1,830,415	1,486,624
Motor vehicles	266,445	221,336
	2,390,962	2,164,319
Net		
Furniture, fixtures and office equipment	435,416	362,883
Leasehold improvement	1,299,012	491,374
Machinery and equipment	7,042,529	6,668,646
Motor vehicles	237,579	255,574
	9,014,536	7,778,477

The components of depreciation charged are:

	Three months ended June 30,		Six months ended June 30,	
	2009 (Unaudited) $	2008 (Unaudited) $	2009 (Unaudited) $	2008 (Unaudited) $
Included in factory overheads	118,715	159,594	304,818	265,018
Included in operating expenses	68,075	37,285	119,189	80,656
	186,790	196,879	424,007	345,674

HONG KONG HIGHPOWER TECHNOLOGY, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

12. Leasehold land

	At of June 30, 2009 (Unaudited) $	December 31, 2008 (Audited) $
Cost	3,112,765	3,112,765
Accumulated amortization	(94,476)	(62,255)
Net	3,018,289	3,050,510

The leasehold land is being amortized annually using the straight-line method over the lease terms of 50 years.

13. Intangible asset

	At of June 30, 2009 (Unaudited) $	December 31, 2008 (Audited) $
Cost		
Consumer battery license fee	1,000,000	1,000,000
Accumulated amortization	(125,000)	(100,000)
Net	875,000	900,000

Amortization expenses included in selling and distribution costs for the six months ended June 30, 2009 and 2008 was $25,000.

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

HONG KONG HIGHPOWER TECHNOLOGY, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Stated in US Dollars)

13. Intangible asset (continued)

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

The Consumer Battery License Agreement also requires the Company to pay an additional up-front royalty payment of $1,000,000 by four annual installments and an annual royalty fee based on the gross sales of consumer batteries over the term of the Consumer Battery License Agreement. Accordingly, during the year ended December 31, 2007, the Company recorded a total up-front royalty payment obligation of $1,000,000, which was included in other payables and accrued liabilities, with the related debit recorded as an intangible asset entitled consumer battery license agreement. During the six months ended June 30, 2009, the Company recorded a total of approximately $98,946 as royalty expense, which was included in selling and distribution costs in the statement of operations. At June 30, 2009, accrued royalty fees payable was $922,238 (see Note 14).

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

14. Other payables and accrued liabilities

	At of	
	June 30, 2009 (Unaudited) $	December 31, 2008 (Audited) $
Accrued expenses	1,252,783	1,072,331
Royalty payable	922,238	1,540,900
Sales deposits received	4,533,234	388,261
Value-added tax payables	-	105,833
Other payables	26,847	31,950
	6,735,102	3,139,275

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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15. Bank borrowings

	At of	
	June 30, 2009 (Unaudited) $	December 31, 2008 (Audited) $
Secured:		
Repayable within one year		
Short term bank loans	1,851,367	2,969,939
Other trade related bank loans	3,792,915	11,859,289
	5,644,282	14,829,228

As of June 30, 2009, the above bank borrowings were secured by the following:

(a) charge over bank deposits of $4,119,107 which is included in restricted cash on the Balance sheet;

(b) personal guarantee executed by the directors of the Company;

(c) the legal charge over leasehold land with carrying amount $3,018,289 (see Note 12); and

(d) other financial covenant

The bank borrowings require one of the Company's subsidiaries to maintain a minimum net worth of $11,732,692. The Company was in compliance with this requirement at June 30, 2009.

The interest rates of trade related bank loans were at bank's prime lending rate per annum with various maturity dates. The rates at June 30, 2009 ranged from 6.5% to 8%.

The interest rates of short term bank loans were at 4.86% per annum at June 30, 2009.

16. Pension plans

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

The assets of the schemes are controlled by trustees and held separately from those of the Company. Total pension cost was $258,228 and $48,840 for the six months ended June 30, 2009 and 2008, respectively.

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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17. Commitments and contingencies

Operating leases commitments

The Company leases factory and office premises under various non-cancelable operating lease agreements that expire at various dates through years 2009 to 2010, with an option to renew the lease. All leases are on a fixed repayment basis. None of the leases includes contingent rentals. Minimum future commitments under these agreements payable as of June 30, 2009 are as follows:

Period ending June 30,	$
2009	276,097
2010	235,653
	511,750

Rent expenses for the six months ended June 30, 2009 and 2008 were $475,375 and $292,506 respectively.

Capital commitments

The Company has the following capital commitments as of June 30, 2009:

	$
Purchase of plant and equipment	187,526

Contingencies

From time to time, the Company factors bills receivable to banks. At the time of the factoring, all rights and privileges of holding the receivables are transferred to the banks. The Company removes the asset from its books and records a corresponding expense for the amount of the discount. The Company remains contingently liable on the amount outstanding in the event the bill issuer defaults.

	At of	
	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
	$	$
Bills discounted	-	-

HONG KONG HIGHPOWER TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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18. Segment Information

The Company uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. Management, including the chief operating decision maker, reviews operating results solely by monthly revenue (but not by sub-product type or geographic area) and operating results of the Company and, as such, the Company has determined that the Company has one operating segment as defined by SFAS 131, " Disclosures about Segments of an Enterprise and Related Information ".

Long-lived assets of the Company are located in PRC. Geographic information about the revenues and accounts receivable which are classified based on the location of the customers is set out as follows:

	Six months ended June 30,	
	2009 (Unaudited)	2008 (Unaudited)
	$	$
Net revenue		
Hong Kong and China	12,157,121	13,346,458
Asia	1,573,266	2,719,708
Europe	9,002,647	15,306,697
North America	3,818,465	5,187,455
South America	41,911	159,329
Others	161,879	133,391
	26,755,289	36,853,038

	At of	
	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
	$	$
Accounts receivable		
Hong Kong and China	5,009,263	5,012,471
Asia	626,535	169,376
Europe	2,472,255	2,695,166
North America	85,628	875,022
South America	1,519,566	13,558
Others	10,281	-
	9,723,528	8,765,593

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

The following discussion relates to a discussion of the financial condition and results of operations of Hong Kong Highpower Technology, Inc. (the "Company") and its wholly-owned subsidiary Hong Kong Highpower Technology Co., Ltd. (referred to herein as "HKHT"), and HKHT's wholly-owned subsidiaries Shenzhen Highpower Technology Co., Ltd. ("Shenzhen Highpower") and Springpower Technology (Shenzhen) Co., Ltd. ("Springpower"). HKHT's other subsidiary, HZ Highpower Technology Co. ("HZ Highpower") has not yet commenced operations.

Forward-Looking Statements

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes that are included in this Quarterly Report and the audited consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

This Quarterly Report contains forward-looking statements that involve substantial risks and uncertainties. All statements other than historical facts contained in this report, including statements regarding our future financial position, capital expenditures, cash flows, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "anticipated," "believe," "expect, "plan," "intend," "seek," "estimate," "project," "could," "may," and similar expressions are intended to identify forward-looking statements. Such statements reflect our management's current views with respect to future events and financial performance and involve risks and uncertainties, including, without limitation, the current economic downturn adversely affecting demand for the our products; fluctuations in the cost of raw materials; our dependence on, or inability to attract additional, major customers for a significant portion of our net sales; our ability to increase manufacturing capabilities to satisfy orders from new customers; changes in the laws of the PRC that affect our operations; our ability to complete construction at our new manufacturing facility on time; our ability to control operating expenses and costs related to the construction of our new manufacturing facility; the devaluation of the U.S. Dollar relative to the Renminbi; our dependence on the growth in demand for portable electronic devices and the success of manufacturers of the end applications that use our battery products; our responsiveness to competitive market conditions; our ability to successfully manufacture Li-ion batteries in the time frame and amounts expected; the market acceptance of our Li-ion products; changes in foreign, political, social, business and economic conditions that affect our production capabilities or demand for our products; and various other matters, many of which are beyond our control. Actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated should one or more of these risks or uncertainties occur or if any of the risks or uncertainties described in elsewhere in this report or in the "Risk Factors" section of our 2008 Annual Report occur. Consequently, all of the forward-looking statements made in this filing are qualified by these cautionary statements and there can be no assurance of the actual results or developments.

Overview

We were incorporated in the state of Delaware on January 3, 2006. We were originally organized as a "blank check" shell company to investigate and acquire a target company or business seeking the perceived advantages of being a publicly held corporation. On November 2, 2007, we closed a share exchange transaction, pursuant to which we (i) became the 100% parent of HKHT and its wholly-owned subsidiary, Shenzhen Highpower, (ii) assumed the operations of HKHT and its subsidiary and (iii) changed our name from SRKP 11, Inc. to Hong Kong Highpower Technology, Inc. HKHT was incorporated in Hong Kong in 2003, under the Companies Ordinance of Hong Kong. Shenzhen Highpower was founded in founded in 2001. HKHT formed HZ Highpower and Springpower in 2008. HZ Highpower has not yet commenced business operations.

In addition, on November 2, 2007, concurrently with the close of the Share Exchange, we conducted a private placement transaction (the "Private Placement"). Pursuant to Subscription Agreements entered into with the investors, we sold an aggregate of 1,772,745 shares of Common stock at $1.76 per share. As a result, we received gross proceeds in the amount of $3.12 million.

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

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

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

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

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

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

Results of Operations

Non-GAAP Financial Results

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

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

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

- EBITDA (1) does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; (2) does not reflect changes in, or cash requirements for, our working capital needs; (3) does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; (4) does not reflect income taxes or the cash requirements for any tax payments; and (5) does not reflect all of the costs associated with operating our business;

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

- other companies may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	$	$	$	$
Net income (loss)	968,656	684,247	1,371,622	1,414,574
Interest expense	39,377	194,047	80,497	400,767
Income taxes	228,752	64,298	389,819	231,178
Depreciation	186,790	190,879	424,007	345,674
Amortization	114,731	71,398	273,888	99,462-
EBITDA	1,538,306	1,204,869	2,539,833	2,491,655

EBITDA for the three months ended June 30, 2009 totaled $1,538,306, compared with $1,204,869 for the comparable period in 2008. The increase was due to increase in the number of battery units sold and increased stock-based compensation expense in 2009.

EBITDA for the six months ended June 30, 2009 totaled $2,539,833, compared with $2,491,655 for the comparable period in 2008. The increase was due to increase in the number of battery units sold and increase stock-based compensation expense in 2009.

Three Months Ended June 30, 2009 and 2008

Net sales for the three months ended June 30, 2009 were $15.4 million compared to $19.0 million for the three months ended June 30, 2008, a decrease of 18.8%. This decrease was largely due to a 0.7% increase in the number of battery units sold and a 19.5% decrease in the average selling price of our battery units. The 0.7% increase in the number of battery units sold was due to increased orders from our major customers. The 19.5% decrease in the average selling price of our battery units was due to a decrease in the average cost of nickel during the three months ended June 30, 2009 compared to the comparable period in 2008. Net sales during the three months ended June 30, 2008 also included $148,052 from the sale of battery seconds. No such sales of battery seconds occurred during the three months ended June 30, 2009.

Cost of sales consists of the cost of nickel and other materials. Costs of sales were $12.4 million the three months ended June 30, 2009 as compared to $15.6 million for the comparable period in 2008. As a percentage of net sales, cost of sales decreased to 80.1% for the three months ended June 30, 2009 compared to 82.3% for the comparable period in 2008. This decrease was attributable to a 22% decrease in the average per unit cost of goods sold during three months ended June 30, 2009 as compared to the comparable period in 2008, which was offset by a 19.5% decrease in the average selling price of our battery units during the three months ended June 30, 2009 over three months ended June 30, 2008. The 22% decrease in the average per unit cost of goods sold resulted from a 50% decrease in the average cost of nickel during the three months ended June 30, 2009 compared to the comparable period in 2008.

Gross profit for the three months ended June 30, 2009 was $3.1 million, or 19.9% of net sales, compared to $3.4 million, or 17.7% of net sales, for the comparable period in 2008. Management considers gross profit to be a key performance indicator in managing our business. Gross profit margins are usually a factor of cost of sales, product mix and demand for product. The increase in our gross profit margin for the three months ended June 30, 2009 is primarily due to a 22% decrease in the average per unit cost of goods sold during three months ended June 30, 2009 as compared to the comparable period in 2008.

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

Selling and distribution costs were $580,000 for the three months ended June 30, 2009 compared to $548,000 for the comparable period in 2008. The increase was primarily due to the expansion of our salesforce. Our market share remained relatively flat attributable to the decreased demand for our products due to the global economic downturn and challenging economic conditions.

General and administrative costs were $1.0 million, or 6.8% of net sales, for the three months ended June 30, 2009, compared to $1.6 million, or 8.3% of net sales, for the comparable period in 2008. Management considers these expenses as a percentage of net sales to be a key performance indicator in managing our business. The decrease as a percentage of net sales was primarily due to a decrease in personnel and labor costs, which decreased $124,500 for the three months ended June 30, 2009 over the comparable period in 2008 due to the reduction of our indirect staff to cut indirect cost , which was offset by an increase in stock based compensation charges in the three months ended June 30, 2009.

We experienced losses on the exchange rate difference between the U.S. Dollar and the RMB of $23,000 and $331,000, respectively, in the three months ended June 30, 2009 and 2008, a significant decrease in losses, due to the slower devaluation of the U.S. Dollar relative to the RMB over the respective periods. Although our sales contracts do not automatically adjust to reflect changes in exchange rates, to cope with devaluation of the U.S. Dollar relative to the RMB, each time that we enter into new sales contracts with new or existing customers we adjust the selling price of batteries in anticipation of an increase, and to make up for any potential change, in the exchange rate between the two currencies. We currently engage in currency hedging, due to which we experienced a $21,000 loss on the fair value of our currency forwards in the three months ended June 30, 2009 compared to $nil in the three months ended June 30, 2008.

Interest expense was $39,000 for the three months ended June 30, 2009, as compared to $194,000 for the comparable period in 2008. The decrease was primarily due to lower borrowing levels. We decreased our borrowings by approximately $11.2 million in the three months ended June 30, 2009 as compared to the three months ended June 30, 2008. Further increases in borrowing rates would further increase our interest expense, which would have a negative effect on our results of operations.

Other income from operations, which consists of bank interest income, exchange gains and losses and sundry income, was $22,000, for the three months ended June 30, 2009, as compared to $120,000 for the three months ended June 30, 2008. The decrease was due to a $33,000 decrease in bank interest income, an $11,000 decrease in other interest income, a $7,000 decrease in other interest income and a $47,000 increase in sundry income.

During the three months ended June 30, 2009, we recorded a provision for income taxes of $229,000, as compared to $64,000 for the comparable period in 2008. The increase was a result of an increase in our net taxable income, partially offset by an increase in our tax rate.

Net income for the three months ended June 30, 2009 was $696,000, compared to net income of $684,000 for the comparable period in 2008.

Six Months Ended June 30, 2009 and 2008

Net sales for the six months ended June 30, 2009 were $26.8 million compared to $36.9 million for the six months ended June 30, 2008, a decrease of 27%. This decrease was largely due to a 10% decrease in the number of battery units sold and a 19% decrease in the average selling price of our battery units. The 10% decrease in the number of battery units sold was due to decreased orders from our major customers. The 19% decrease in the average selling price of our battery units was due to a decrease in the average cost of nickel during the six months ended June 30, 2009 compared to the comparable period in 2008. Net sales during the six months ended June 30, 2008 also included $208,052 from the sale of battery seconds. No such sales of battery seconds occurred during the six months ended June 30, 2009.

Cost of sales consists of the cost of nickel and other materials. Costs of sales were $21.3 million the six months ended June 30, 2009 as compared to $30.8 million for the comparable period in 2008. As a percentage of net sales, cost of sales decreased to 79.6% for the six months ended June 30, 2009 compared to 83.5% for the comparable period in 2008. This decrease was attributable to a 22% decrease in the average per unit cost of goods sold during six months ended June 30, 2009 as compared to the comparable period in 2008, which was offset by a 19% decrease in the average selling price of our battery units during the six months ended June 30, 2009 over six months ended June 30, 2008. The 22% decrease in the average per unit cost of goods sold resulted from a 50% decrease in the average cost of nickel during the six months ended June 30, 2009 compared to the comparable period in 2008.

Gross profit for the six months ended June 30, 2009 was $5.5 million, or 20.4% of net sales, compared to $6.1 million, or 16.5% of net sales, for the comparable period in 2008. Management considers gross profit to be a key performance indicator in managing our business. Gross profit margins are usually a factor of cost of sales, product mix and demand for product. The increase in our gross profit margin for the six months ended June 30, 2009 is primarily due to a 22% decrease in the average per unit cost of goods sold during six months ended June 30, 2009 as compared to the comparable period in 2008.

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

Selling and distribution costs were $1.1 million for the six months ended June 30, 2009 compared to $962,000 for the comparable period in 2008. The increase was primarily due to the expansion of our salesforce. Our market share remained relatively flat attributable to the decreased demand for our products due to the global economic downturn and challenging economic conditions.

General and administrative costs were $2.1 million, or 7.8% of net sales, for the six months ended June 30, 2009, compared to $2.3 million, or 6.3% of net sales, for the comparable period in 2008. Management considers these expenses as a percentage of net sales to be a key performance indicator in managing our business. The increase as a percentage of net sales was primarily due to an increase in personnel and labor costs, which increased $62,000 for the six months ended June 30, 2009 over the comparable period in 2008 due to the expansion of our technician and marketing team to expand our market share and a increase of $173,333 in stock based compensation charges in the six months ended June 30, 2009.

We experienced losses on the exchange rate difference between the U.S. Dollar and the RMB of $56,000 and $836,000, respectively, in the six months ended June 30, 2009 and 2008, a significant decrease in losses, due to the slower devaluation of the U.S. Dollar relative to the RMB over the respective periods. Although our sales contracts do not automatically adjust to reflect changes in exchange rates, to cope with devaluation of the U.S. Dollar relative to the RMB, each time that we enter into new sales contracts with new or existing customers we adjust the selling price of batteries in anticipation of an increase, and to make up for any potential change, in the exchange rate between the two currencies. We currently engage in currency hedging, due to which we experienced an $110,000 loss on the fair value of our currency forwards in the six months ended June 30, 2009 compared to a gain of $29,000 in the six months ended June 30, 2008.

Interest expense was $80,000 for the six months ended June 30, 2009, as compared to $401,000 for the comparable period in 2008. The decrease was primarily due to lower borrowing levels. We decreased our borrowings by approximately $11.2 million in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008. Further increases in borrowing rates would further increase our interest expense, which would have a negative effect on our results of operations.

Other income from operations, which consists of bank interest income, exchange gains and losses and sundry income, was $89,000, for the six months ended June 30, 2009, as compared to $225,000 for the six months ended June 30, 2008. The decrease was due to a $46,000 decrease in bank interest income, an $11,000 decrease in other interest income, a $17,000 decrease in other interest income and a $61,000 increase in sundry income.

During the six months ended June 30, 2009, we recorded a provision for income taxes of $390,000, as compared to $231,000 for the comparable period in 2008. The increase was a result of an increase in our net taxable income, partially offset by an increase in our tax rate.

Net income for the six months ended June 30, 2009 was $1.4 million, compared to net income of $1.4 million for the comparable period in 2008.

Liquidity and Capital Resources

To provide liquidity and flexibility in funding our operations, we borrow amounts under bank facilities and other external sources of financing. As of June 30, 2009, we had in place general banking facilities with four financial institutions aggregating $23.2 million. The maturity of these facilities is generally up to one year. The facilities are subject to annual review and approval. These banking facilities are guaranteed by us and some of our shareholders, including Dang Yu Pan, Wen Liang Li and Wen Wei Ma, and contain customary affirmative and negative covenants for secured credit facilities of this type. However, these covenants do not have any impact on our ability to undertake additional debt or equity financing. Interest rates are generally based on the banks' reference lending rates. No significant commitment fees are required to be paid for the banking facilities. As of June 30, 2009, we had utilized approximately $5.6 million under such general credit facilities and had available unused credit facilities of $17.6 million.

On November 2, 2007, upon the closing of a private placement, we received gross proceeds of $3.12 million in a private placement transaction (the "Private Placement"). Pursuant to Subscription Agreements entered into with the investors, we sold an aggregate of 2,836,364 shares of Common Stock at $1.10 per share. We filed a registration statement covering the common stock sold in the Private Placement. For its services in connection with the Share Exchange and as placement agent, the placement agent received an aggregate commission equal to 10% of the gross proceeds from the Private Placement, in addition to $30,000 in connection with the execution of the Exchange Agreement and a $40,000 success fee for the Share Exchange, for an aggregate amount fee of $382,000.

For the six months ended June 30, 2009, net cash provided by operating activities was approximately $7.1 million, as compared to $2.1 million for the comparable period in 2008. The increase in net cash provided by operating activities is primarily attributable to a decrease in inventory levels and an increase in payables.

Net cash used in investing activities was $1.6 million for the six months ended June 30, 2009 compared to $1.9 million for the comparable period in 2008. The decrease of cash used in investing activities was primarily attributable to a slight decrease in the amount of acquisition of plant and equipment.

Net cash used in financing activities was $8.5 million for the six months ended June 30, 2009 as compared to net cash provided by financing activities of $1.6 million for the comparable period in 2008. The different in net cash used in financing activities was attributable to the repayment of bank borrowings in the six months ended June 30, 2009.

For the six months ended June 30, 2009, our inventory turnover was 8.2 times, as compared to 3.9 times at June 30, 2008. The average days outstanding of our accounts receivable at June 30, 2009 were 54 days, as compared to 58 days at June 30, 2008. Inventory turnover and average days outstanding are key operating measures that management relies on to monitor our business. In the next 12 months, we expect to expand our research, development and manufacturing of lithium-based batteries and anticipate additional capital expenditures of approximately $0.5 million.

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

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

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

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51". SFAS No. 141(R) and SFAS No. 160 require most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at "full fair value" and require noncontrolling interests (previously referred to as minority interest) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS No. 141(R) will be applied to business combinations occurring after the effective date. SFAS No. 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. SFAS No. 160 is effective for the Company on January 1, 2009. The Company does not expect the initial adoption of SFAS No. 160 will have a material effect on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities", which requires enhanced disclosures about an entity's derivatives and hedging activities. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Since SFAS No. 161 only provides for additional disclosure requirements, management assessed that there will be no impact on the results of operations and financial position.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in accordance with generally accepted accounting principles ("GAAP"). With the issuance of this statement, the FASB concluded that the GAAP hierarchy should be directed toward the entity and not its auditor, and reside in the accounting literature established by the FASB as opposed to the American Institute of Certified Public Accountants "AICPA") Statement on Auditing Standards No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." This statement is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company does not expect the adoption of SFAS No. 162 will have a material impact on the results of operations and financial position.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Credit Risk

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

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Foreign Currency and Exchange Risk

The Company maintains its financial statements in the functional currency of Renminbi (“RMB”). Substantially all of our operations are conducted in the PRC and we pay the majority of our expenses in RMB. Approximately 75% of our sales are made in U.S. Dollars. During the six months ended June 30, 2009, the exchange rate of the RMB to the U.S. Dollar decreased approximately 0.05% from the level at the end of December 31, 2008. This fluctuation resulted in a slight increase in our material costs during the three months ended June 30,, 2009. A future appreciation of the RMB against the U.S. Dollar would increase our costs when translated into U.S. Dollars and could adversely affect our margins unless we make sufficient offsetting sales. Conversion of RMB into foreign currencies is regulated by the People’s Bank of China through a unified floating exchange rate system. Although the PRC government has stated its intention to support the value of the RMB, there can be no assurance that such exchange rate will not continue to appreciate significantly against the U.S. Dollar. Exchange rate fluctuations may also affect the value, in U.S. Dollar terms, of our net assets. In addition, the RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. Due to the volatility of the US Dollar to our functional currency the Company put into place in 2008 a hedging program to attempt to protect it from significant changes to the US Dollar which affects the value of its US dollar receivables and sales. At June 30, 2009, the Company had a series of currency forwards totaling a notional amount US$1,000,000 expiring from April 2009 to July 2009. The terms of these derivative contracts are generally for 12 months or less. Changes in the fair value of these derivative contracts are recorded in earnings to offset the impact of foreign currency transaction gains and losses. We experienced a $21,000 and $110,000 loss in the value of currency forwards in the three and six months ended June 30, 2009, respectively, as compared to a $nil during the comparable periods in 2008.

Country Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Based on an evaluation carried out as of the end of the period covered by this quarterly report, under the supervision and with the participation of our management, including our CEO and CFO, our CEO and CFO have concluded that, as of the end of such period, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were effective as of June 30, 2009.

Changes in Internal Control Over Financial Reporting

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

Part II. Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

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

None.

Item 3. Default Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description of Document
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.*

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

HONG KONG HIGHPOWER TECHNOLOGY, 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.

	Hong Kong Highpower Technology, Inc.	
Dated: August 13, 2009	/s/	Dang Yu Pan
	By:	Dang Yu Pan
	Its:	Chairman of the Board and Chief Executive Officer
	/s/	Henry Ngan
	By:	Henry Ngan
	Its:	Chief Financial Officer