Kandi Technologies Group, Inc.
Form 10-Q
November 09, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **September 30, 2015**

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ______ to ______

Commission file number **001-33997**

KANDI TECHNOLOGIES GROUP, INC.

(Exact name of registrant as specified in charter)

Delaware	**90-0363723**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Jinhua City Industrial Zone
Jinhua, Zhejiang Province
People s Republic of China
Post Code 321016
(Address of principal executive offices)

(86 - 579) 82239856
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)
Yes [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ]	Smaller reporting company [ ]

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

As of November 3, 2015, the registrant had issued and outstanding 46,964,855 shares of common stock, par value $0.001 per share.

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PART I-- FINANCIAL INFORMATION

Item 1. Financial Statements. (Unaudited)

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2015	December 31, 2014
Current assets		
Cash and cash equivalents	$ 11,691,023	$ 26,379,460
Restricted cash	15,689,228	13,000,731
Accounts receivable	33,912,043	15,736,805
Inventories (net of provision for slow moving inventory of 304,677 and 315,584 as of September 30, 2015 and December 31, 2014, respectively)	31,652,659	15,403,840
Notes receivable	18,785,582	9,060,441
Other receivables	488,621	238,567
Prepayments and prepaid expense	240,609	120,761
Due from employees	41,128	34,475
Advances to suppliers	457,782	6,901,505
Amount due from JV Company, net	76,814,162	51,450,612
TOTAL CURRENT ASSETS	189,772,837	138,327,197
LONG-TERM ASSETS		
Plant and equipment, net	21,788,066	26,215,356
Land use rights, net	14,826,253	15,649,152
Construction in progress	56,525,652	58,510,051
Long Term Investment	1,490,477	-
Investment in JV Company	82,273,884	83,309,095
Goodwill	322,591	322,591
Intangible assets	515,830	577,401
Other long term assets	156,892	162,509
TOTAL Long-Term Assets	177,899,645	184,746,155
TOTAL ASSETS	$ 367,672,482	$ 323,073,352
CURRENT LIABILITIES		
Accounts payables	$ 87,854,246	$ 45,772,481
Other payables and accrued expenses	3,362,729	5,101,740
Short-term loans	37,340,362	35,589,502
Customer deposits	111,314	2,630,723
Notes payable	3,137,846	5,702,121
Income tax payable	2,803,621	1,835,685
Due to employees	12,862	15,787
Deferred taxes liabilities	256,049	230,864
Financial derivate - liability	540,299	2,245,610
Deferred income	34,954	-
Total Current Liabilities	135,454,282	99,124,513
LONG-TERM LIABILITIES		
Deferred taxes liabilities	402,934	2,266,725
Financial derivate - liability	-	10,097,275
Total Long-Term Liabilities	402,934	12,364,000

TOTAL LIABILITIES		135,857,216		111,488,513
STOCKHOLDER'S EQUITY				
Common stock, $0.001 par value; 100,000,000 shares authorized; 46,964,855 and 46,274,855 shares issued and outstanding at September 30,2015 and December 31,2014, respectively		46,965		46,275
Additional paid-in capital		202,744,428		190,258,037
Retained earnings (the restricted portion is $4,172,324 and $4,172,324 at September 30,2015 and December 31,2014, respectively)		30,290,776		16,390,424
Accumulated other comprehensive income(loss)		(1,266,903)		4,890,103
TOTAL STOCKHOLDERS' EQUITY		231,815,266		211,584,839
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	367,672,482	$	323,073,352

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
REVENUES, NET	$ 50,528,545	$ 44,206,992	$ 142,273 ,091	$ 117,338,351
COST OF GOODS SOLD	43,411,8 39	38,698 ,452	122,294 ,189	99,748, 314
GROSS PROFIT	7,116,706	5,508 ,540	19,978, 902	17,590, 037
OPERATING EXPENSES:				
Research and development	785,450	391,097	1,928,091	2,535,0 27
Selling and marketing	122,873	432,365	312,284	939,516
General and administrative	8,649,541	2,076,749	16,275,202	11,720,693
Total Operating Expenses	9,557,864	2,900,211	18,515,577	15,195,236
INCOME (LOSS) FROM OPERATIONS	(2,441,158)	2,608,329	1,463,325	2,394,801
OTHER INCOME(EXPENSE):				
Interest income	1,140,756	220,91 1	2,454,0 79	1,453,0 47
Interest (expense)	(534,987)	(932,030)	(1,730,898)	(2,850,341)
Change in fair value of financial instruments	3,049,242	10,187,277	11,802,586	6,814,675
Government grants	(724)	63,584	92,139	217,284
Share of profit (loss) in associated companies	-	38,702	-	(54,290)
Share of profit after tax of JV	1,179,605	2,038,388	1,900,128	3,757,218
Other income, net	988,224	21,814	1,094,278	141,641

Total other income (expense), net	5,822,116	11,638,646	15,612,312	9,479,234
INCOME(LOSS) BEFORE INCOME TAXES	3,380,958	14,246,975	17,075,637	11,874,035
INCOME TAX EXPENSE	(1,037,763)	(713,273)	(3,175,287)	(1,269,408)
NET INCOME	2,343,195	13,533,702	13,900,350	10,604,627
OTHER COMPREHENSIVE INCOME				
Foreign currency translation	(7,098,249)	(109,112)	(6,157,006)	(2,037,704)
COMPREHENSIVE INCOME(LOSS)	$ (4,755,054)	$ 13,424,590	$ 7,743,344	$ 8,566,923
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	46,959,638	43,214,455	46,670,533	41,327,666
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	46,959,638	43,530,185	46,945,277	41,462,490
NET INCOME PER SHARE, BASIC	$ 0.05	$ 0.31	$ 0.30	$ 0.26
NET INCOME PER SHARE, DILUTED	$ 0.05	$ 0.31	$ 0.30	$ 0.26

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended	
	September 30, 2015	September 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,900,350	$ 10,604,627
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,388,902	4,157,606
Assets Impairments	-	
Deferred taxes	(1,854,863)	808,725
Change in fair value of financial instruments	(11,802,586)	(6,814,675)
Loss (income) in investment in associated companies	-	54,290
Share of loss after tax of JV Company	(1,900,128)	(3,757,218)
Stock Compensation cost	12,486,881	-
Changes in operating assets and liabilities, net of effects of acquisition:		
(Increase) Decrease In:		
Accounts receivable	(19,286,512)	17,190,113
Inventories	(17,289,849)	(5,480,008)
Other receivables	(298,976)	105,092
Due from employee	(10,535)	413,441
Prepayments and prepaid expenses	6,265,899	(49,927,475)
Amount due from JV Company	(27,964,497)	(49,177,160)
Increase (Decrease) In:		
Accounts payable	44,980,746	32,911,627
Other payables and accrued liabilities	(1,302,135)	2,441,464
Customer deposits	(2,502,087)	108,031
Income Tax payable	1,062,643	(36,060)
Net cash (used in) provided by operating activities	$ (1,126,747)	$ (46,397,580)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchases)/Disposal of plant and equipment, net	(408,850)	(813,246)
Purchases of land use rights	-	(1,667,986)
Purchases of construction in progress	(39,054)	(39,283)
Disposal of associated company	-	(96,268)
Issuance of notes receivable	(72,040,444)	(21,698,986)
Repayment of notes receivable	61,697,894	29,344,951
Long Term Investment	(1,535,651)	-
Net cash provided by (used in) investing activities	$ (12,326,105)	$ 5,029,182
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash	(3,232,950)	(13,006,018)
Proceeds from short-term bank loans	30,583,709	28,616,816
Repayments of short-term bank loans	(27,512,406)	(39,998,504)

Proceeds from notes payable		9,860,498		13,007,644
Repayment of notes payable		(12,299,436)		(16,584,746)
Option exercise stock awards & other financing		-		6,429,622
Warrant exercise		-		22,447,914
Common stock issued for acquisition, net of cost of capital		-		78,155,627
Net cash (used in) provided by financing activities	$	(2,600,585)	$	79,068,355
NET INCREASE IN CASH AND CASH EQUIVALENTS		(16,053,437)		37,699,957
Effect of exchange rate changes on cash		1,365,000		(961,614)
Cash and cash equivalents at beginning of year		26,379,460		12,762,369
CASH AND CASH EQUIVALENTS AT END OF PERIOD		11,691,023		49,500,712
SUPPLEMENTARY CASH FLOW INFORMATION				
Income taxes paid		1,794,115		1,305,468
Interest paid		1,718,257		1,748,140

See accompanying notes to condensed consolidated financial statements

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

Kandi Technologies Group, Inc. (Kandi Technologies) was incorporated under the laws of the State of Delaware on March 31, 2004. Kandi Technologies changed its name from Stone Mountain Resources, Inc. to Kandi Technologies, Corp. on August 13, 2007. On December 21, 2012, Kandi Technologies changed its name to Kandi Technologies Group, Inc. As used herein, the term the Company means Kandi Technologies and its operating subsidiaries, as described below.

Headquartered in the Jinhua city, Zhejiang Province, China, the Company is one of China s leading producers and manufacturers of electrical vehicle products, electrical vehicle parts and off-road vehicles for sale in the People s Republic of China (the PRC) and global markets. The Company conducts its primary business operations through its wholly-owned subsidiary, Zhejiang Kandi Vehicles Co., Ltd. (Kandi Vehicles), and the partial and wholly-owned subsidiaries of Kandi Vehicles.

The Company s organizational chart is as follows:

Operating Subsidiaries:

Pursuant to relevant agreements executed in January 2011, Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests (100% the profits and losses) of Jinhua Kandi New Energy Vehicles Co., Ltd. (Kandi New Energy), a company in which Kandi Vehicles has a 50% interest. Kandi New Energy was established in accordance with relevant Chinese government regulations on automobile manufacturing enterprises, which prohibit foreign ownership of greater than 50%. Mr. Hu Xiaoming owns the other 50%, which he entrusted to Kandi Vehicles to manage. Kandi New Energy currently holds vehicle production rights (a PRC license) to manufacture Kandi-brand electric utility vehicles (Special-purpose Vehicles) and production rights (a PRC license) to manufacture battery packs used in Kandi-brand electric vehicles (EVs). Kandi New Energy supplies battery packs for Kandi-brand EVs.

In April 2012, pursuant to the agreement, the Company acquired 100% of YongkangScrou Electric Co, Ltd. (YongkangScrou), a manufacturer of automobile and EV parts, including EV drive motors, EV controllers, air conditioners and other electrical products, that are sold primarily to the JV Company (defined below).

As a part of the Company s EV business strategy, the Company believes it needs more production resources to timely and efficiently satisfy the market demands. In March 2013, pursuant to a joint venture agreement (the JV Agreement) entered into by and between Kandi Vehicles and Shanghai Maple Guorun Automobile Co., Ltd. (Shanghai Guorun), a 99%-owned subsidiary of Geely Automobile Holdings Ltd. (Geely), the parties established Zhejiang Kandi Electric Vehicles Co., Ltd. (the JV Company) to develop, manufacture and sell EVs and related auto parts, and to invest in other companies with related or similar businesses. Each of Kandi Vehicles and Shanghai Guorun holds a 50% ownership interest in the JV Company. In March 2014, the JV Company changed its name to Kandi Electric Vehicles Group Co., Ltd. At present, the JV Company is a holding company with products manufactured by its subsidiaries.

In March 2013, Kandi Vehicles formed Kandi Electric Vehicles (Changxing) Co., Ltd. (Kandi Changxing) in the Changxing (National) Economic and Technological Development Zone. Kandi Changxing is engaged in the production of EVs. In the fourth quarter of 2013, Kandi Vehicles entered into a share transfer agreement with the JV Company pursuant to which Kandi Vehicles transferred 100% of its ownership in Kandi Changxing to the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Changxing.

In April 2013, Kandi Electric Vehicles (Wanning) Co., Ltd. (Kandi Wanning) was formed in Wanning City of Hainan Province by Kandi Vehicles and Kandi New Energy. Kandi Vehicles has a 90% ownership in Kandi Wanning, and Kandi New Energy has the remaining 10% interest. However, by contract, Kandi Vehicles is, effectively, entitled to 100% of the economic benefits, voting rights and residual interests (100% of the profits and losses) of Kandi Wanning.

In July 2013, Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. (the Service Company) was formed. The Service Company is engaged in various pure EV leasing businesses. The JV Company had a 19% ownership interest in the Service Company. In August 2015, because the Service Company started to prepare for Initial Pricing Offering, the JV Company transferred its shares of the Service Company to Shanghai Guorun and Kandi Vehicles for 9.5% respectively. As the result, the Company has the direct economic interest of 9.5% of the Service Company through Kandi Vehicles.

In November 2013, Zhejiang Kandi Electric Vehicles Jinhua Co., Ltd. (Kandi Jinhua) was formed by the JV Company. The JV Company has 100% ownership interest in Kandi Jinhua, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jinhua. According to the terms of the JV Agreement, except through the JV Company and its subsidiaries, Kandi Vehicle and its subsidiaries will not manufacture pure EVs. However, Kandi New Energy holds the production rights (a PRC license) to manufacture of Special-purpose Vehicles. Therefore, it was necessary to establish Kandi Jinhua, which is in charge of the Special-purpose Vehicle business and entitled to use Kandi New Energy s Special-purpose Vehicle production rights (license).

In November 2013, Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. (JiHeKang) was formed by the JV Company and is engaged in the EV car sales business. The JV Company has 100% ownership interest in JiHeKang, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in JiHeKang.

In December 2013, the JV Company entered into an ownership transfer agreement with Shanghai Guorun pursuant to which the JV Company acquired 100% ownership of Kandi Electric Vehicles (Shanghai) Co., Ltd. (Kandi Shanghai). As a result, Kandi Shanghai is a wholly-owned subsidiary of the JV Company, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Shanghai. Kandi Shanghai is mainly engaged in EV research and development, manufacturing and sales.

In January 2014, Zhejiang Kandi Electric Vehicles Jiangsu Co., Ltd. (Kandi Jiangsu) was formed by the JV Company. The JV Company has a 100% ownership interest in Kandi Jiangsu, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jiangsu. Kandi Jiangsu is mainly engaged in EV research and development, manufacturing and sales.

The Company s primary business operations are the design, development, manufacturing and commercialization of EV products, EV parts, and off-road vehicles. As part of its strategic objective to become a leading manufacturer of EV products and related services, the Company has increased its focus on fuel efficient, pure EV products with a particular emphasis on expanding its market share in China.

NOTE 2 LIQUIDITY

The Company had a working capital surplus of $54,318,555 as of September 30, 2015, an increase of $15,115,871 from $39,202,684 as of December 31, 2014.

As of September 30, 2015, the Company had credit lines from commercial banks of $37,340,362. The Company believes that its cash flows generated internally may not be sufficient to support the growth of future operations and to repay short-term bank loans for the next twelve (12) months. However, the Company believes its cash reserves and its access to existing financing sources, including established relationships with PRC banks, will enable it to fund its ongoing operations.

The Company has historically financed its operations through short-term commercial bank loans from PRC banks. The term of these loans is typically for one year, and upon the payment of all outstanding principal and interest in a particular loan, the banks have typically rolled over the loan for an additional one-year term, with adjustments made to the interest rate to reflect prevailing market rates. The Company believes this situation has not changed and that short-term bank loans remain available on normal trade terms if needed.

On March 24, 2014, the Company raised approximately $11.05 million from the sale to two institutional investors of an aggregate of 606,000 shares of its common stock at a price of $18.24 per share. As part of the transaction, the Company also issued to the investors warrants for the purchase of up to 90,900 shares of common stock at an exercise price of $22.80 per share, with a term of 18 months from the date of issuance. On July 25, 2015, the Company adjusted the warrant exercise price to $9.72 per share in connection with the grant of employee stock options that triggered the warrant exercise price adjustment term according to the warrant agreement. On August 8, 2015, the Company extended the expiration date of these warrants from September 21, 2015 to January 20, 2016.

On September 4, 2014, the Company raised approximately $71.00 million before deducting fees to the placement agent and other offering expenses incurred from the sale to six institutional investors of an aggregate of 4,127,908 shares of its common stock at a price of $17.20 per share. As part of the transaction terms, the Company also issued to the investors warrants for the purchase of up to 743,024 shares of common stock at an exercise price of $21.50 per share, with a term of 17 months from the date of issuance. On July 25, 2015, the Company adjusted the warrant exercise price to $9.72 per share as a result of the grant of employee stock options that triggered the warrant exercise price adjustment term according to the warrant agreement. On August 8, 2015, the Company extended the expiration date of these warrants from February 4, 2016 to June 3, 2016.

NOTE 3 - BASIS OF PRESENTATION

The Company maintains its general ledger and journals with the accrual method accounting for financial reporting purposes. The financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States (U.S. GAAP) and have been consistently applied in the presentation of the Company s financial statements.

The financial information included herein for the three-month and nine-month period ended September 30, 2015 and 2014 are unaudited; however, such information reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the Company s condensed consolidated financial statements for these interim periods.

The results of operations for the three-month and nine-months ended September 30, 2015 are not necessarily indicative of the results expected for the entire fiscal year ending December 31, 2015.

NOTE 4 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements reflect the accounts of the Company and its ownership interest in following subsidiaries:

(i) Continental, a wholly-owned subsidiary of the Company;

(ii) Kandi Vehicles, a wholly-owned subsidiary of Continental;

(iii) Kandi New Energy, a 50% owned subsidiary of Kandi Vehicles. Pursuant to relevant agreements executed in January 2011, Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests of Kandi New Energy;

(iv) YongkangScrou, a wholly-owned subsidiary of Kandi Vehicles; and

(v) Kandi Wanning, a subsidiary 10% owned by Kandi New Energy and 90% owned by Kandi Vehicles.

All inter-company accounts and transactions have been eliminated in consolidation.

Equity Method Investees

The consolidated net income also includes the Company s proportionate share of the net income or loss of its equity method investees as following:

(i) The JV Company, a 50% owned subsidiary of Kandi Vehicles;

(ii) Kandi Changxing, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest;

(iii) Kandi Jinhua, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest;

(iv) JiHeKang, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest;

(v) Kandi Shanghai, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest;

(vi) Kandi Jiangsu, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest.

All intra-entity profits and losses with the Company s equity method investees have been eliminated.

NOTE 5 USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Management makes these estimates using the best information available at the time the estimates are made. However, actual results when ultimately realized could differ from those estimates.

NOTE 6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Economic and Political Risks

The Company s operations are conducted in the PRC. As a result, the Company s business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC economy. In addition, the Company s earnings are subject to movements in foreign currency exchange rates when transactions are denominated in Renminbi (RMB), which is the Company s functional currency. Accordingly, the Company s operating results are affected by changes in the exchange rate between the U.S. dollar and the RMB.

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 performance 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.

(b) Fair Value of Financial Instruments

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

These tiers include:

Level 1 defined as observable inputs such as quoted prices in active markets;

Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3 defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of September 30, 2015, the Company s assets, measured at fair value, on a recurring basis, subject to the disclosure requirements of ASC 820, were as follows:

	Fair Value Measurements at Reporting Date Using Quoted Prices in Carrying Value as of September 30, 2015	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 11,691,023	$ 11,691,023	-	-
Restricted cash	15,689,228	15,689,228	-	-
Warrants	$ 540,299	-	-	540,299

Cash and cash equivalents consist primarily of highly-rated money market funds at a number of well-known institutions with original maturities of three months or less. Restricted cash represents time deposits on account, some of which are used to secure short-term bank loans and notes payable. The original cost of these assets approximates fair value due to their short term maturity.

Warrants, which are accounted as liabilities, are treated as derivative instruments, and are measured at each reporting date for their fair value using Level 3 inputs. Also see Note 6 (t).

(c) Cash and Cash Equivalents

The Company considers highly-liquid investments purchased with original maturities of three months or less to be cash equivalents.

Restricted cash, as of September 30, 2015 and December 31, 2014, represented time deposits on account, some of which were used to secure short-term bank loans and notes payable. As of September 30, 2015, the Company s restricted cash was $15,689,228.

(d) Inventories

Inventories are stated at the lower of cost or net realizable value (market value). The cost of raw materials is determined on the basis of weighted average. The cost of finished goods is determined on the weighted average basis and comprises direct materials, direct labor and an appropriate proportion of overhead.

Net realizable value is based on estimated selling prices less selling expenses and any further costs expected to be incurred for completion. Adjustments to reduce the cost of inventory to its net realizable value are made, if required, for estimated excess, obsolescence, or impaired balances.

(e) Accounts Receivable

Accounts receivable are recognized and carried at net realizable value. An allowance for doubtful accounts is recorded in periods in which the Company determines a loss is probable, based on its assessment of specific factors, such as troubled collections, historical experience, accounts aging, ongoing business relations and other factors. Accounts are written off after an exhaustive collection effort. If accounts receivable are to be provided for, or written off, they are recognized in the consolidated statement of operations within the operating expenses line item. As of September 30, 2015 and December 31, 2014, the Company had no allowance for doubtful accounts, as per the management s judgment based on their best knowledge.

As of September 30, 2015 and December 31, 2014, the credit terms with the Company s customers were typically 90 to 120 days after delivery.

(f) Notes receivable

Notes receivable represent short-term loans to third parties with the maximum term of one year. Interest income will be recognized according to each agreement between a borrower and the Company on an accrual basis. If notes receivable are paid back, or written off, that transaction will be recognized in the relevant year. If the loan default is probable, reasonably assured and the loss can be reasonably estimated, the Company will recognize income if the written-off loan is recovered at a future date. In case of any foreclosure proceedings or legal actions being taken, the Company provides an accrual for the related foreclosure expenses and related litigation expenses.

(g) Prepayments

Prepayments represent cash paid in advance to suppliers, which also includes advances to raw material suppliers, mold manufacturers, and suppliers of equipment.

Advances for raw materials purchases typically are settled within two months by the Company s receipt of raw materials. Prepayment is offset against purchase amount after equipment or materials are delivered.

(h) Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the assets estimated useful lives, using the straight-line method. Leasehold improvements are amortized over the life of the asset or the term of the lease, whichever is shorter. Estimated useful lives are as follows:

Buildings	30 years
Machinery and equipment	10 years
Office equipment	5 years
Motor vehicles	5 years
Molds	5 years

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income. The cost of maintenance and repairs is charged to expense as incurred, whereas significant renewals and betterments are capitalized.

(i) Construction in Progress

Construction in progress represents the direct costs of construction, the acquisition cost of buildings or machinery and design fees. Capitalization of these costs ceases, and the construction in progress is transferred to plant and equipment, when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until the assets are completed and ready for their intended use.

(j) Long Term Investment

Long Term Investment will be recorded at cost. For investments using the cost method, the Company recognizes, initially at cost, investments in stock of investees as assets on the statement of financial position. The value of the investment in stock accounted for under the cost method may lose its value because of a series of operating losses or other factors. We evaluate our long term investments for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of long term investments may not be recoverable. Impairment exists if the carrying amounts of such assets exceed the estimates of future net undiscounted cash flows expected to be generated by such investments. Should impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the investment s estimated fair value.

As at the end of September 30, 2015, the Company did not record any material impairment losses on our long term investment.

(k) Land Use Rights

According to Chinese laws, land in the PRC is owned by the government and land ownership rights cannot be sold to an individual or to a private company. However, the government grants the user a land use right to use the land. The land use rights granted to the Company are being amortized using the straight-line method over a term of fifty years.

(l) Accounting for the Impairment of Long-Lived Assets

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review, pursuant to the guidelines established in Statement of Financial Accounting Standards (SFAS) No. 144 (now known as ASC 360). The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

During the three-month and nine-month periods ended September 30, 2015, no impairment loss was recognized.

(m) Revenue Recognition

Revenue represents the invoiced value of goods sold. Revenue is recognized when the Company ships the goods to its customers and all of the following criteria are met:

Persuasive evidence of an arrangement exists;
Delivery has occurred or services have been rendered;
The seller s price to the buyer is fixed or determinable; and
Collectability is reasonably assured.

The Company recognized revenue when the products and the risk they carry are transferred to the other party.

(n) Research and Development

Expenditures relating to the development of new products and processes, including significant improvements to existing products, are expensed as incurred. Research and development expenses were $785,450 and $391,097 for the three months ended September 30, 2015 and 2014, respectively. Research and development expenses were $1,928,091 and $2,535,027 for the nine months ended September 30, 2015 and 2014, respectively.

(o) Government Grants

Grants and subsidies received from the PRC Government are recognized when the proceeds are received or collectible.

For the three months ended September 30, 2015 and 2014, $-724 (due to the change resulting from the RMB depreciation against the US dollars) and $63,584, respectively, was received. For the nine months ended September 30, 2015 and 2014, $92,139 and $217,284 was, respectively, received.

(p) Income Taxes

The Company accounts for income tax using an asset and liability approach, which allows for the recognition of deferred tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The accounting for deferred tax calculation represents the management s best estimate on the most likely future tax consequences of events that have been recognized in our financial statements or tax returns and related future anticipation. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future realization is uncertain.

(q) Foreign Currency Translation

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of the Company is the Renminbi (RMB). Capital accounts of the consolidated financial statements are translated into United States dollars from RMB at their historical exchange rates when the capital transactions occurred.

Assets and liabilities are translated at the exchange rates as of balance sheet date. Income and expenditures are translated at the average exchange rate of the reporting period, which rates are obtained from the website: http://www.oanda.com

	September 30, 2015	December 31, 2014	September 30, 2014
Period end RMB : USD exchange rate	6.37380	6.15350	6.15600
Average RMB : USD exchange rate	6.18630	6.14821	6.15023

(r) Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. Comprehensive income includes net income and the foreign currency translation changes.

(s) Segments

In accordance with ASC 280-10, *Segment Reporting*, the Company s chief operating decision makers rely upon the consolidated results of operations when making decisions about allocating resources and assessing performance of the Company. As a result of the assessment made by the chief operating decision makers, the Company has only one single operating segment. The Company does not distinguish between markets or segments for the purpose of internal reporting.

(t) Stock Option Expenses

The Company s stock option expenses are recorded in accordance with ASC 718,*Compensation Stock Compensation*, and ASC 505, *Equity*.

The fair value of stock options is estimated using the Black-Scholes-Merton model. The Company s expected volatility assumption is based on the historical volatility of the Company s common stock. The expected life assumption is primarily based on the expiration date of the option. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The recognition of the stock option expenses is based on awards expected to vest, and there were no estimated forfeitures. ASC standards require forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The stock-based option expenses for the three months and nine months ended September 30, 2015 were 6,109,666 and $8,146,221, respectively. See Note 21.

(u) Warrant Costs

The Company s warrant costs are recorded in liabilities and equities, respectively, in accordance with ASC 480, *Distinguishing Liabilities From Equity*, ASC 505, *Equity*, and ASC 815, *Derivatives and Hedging*.

The fair value of a warrant, which is classified as a liability, is estimated using the Black-Scholes-Merton model and the lattice valuation model. The Company s expected volatility assumption is based on the historical volatility of the Company s common stock. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the warrant is based on the U.S. Treasury yield curve in effect at the time of measurement. The warrants, which are freestanding derivatives and are classified as liabilities on the balance sheet, will be measured at fair value on each reporting date, with decreases in fair value recognized in earnings and increases in fair values were recognized in expenses.

The fair value of equity-based warrants, which are not considered derivatives under ASC 815, is estimated using the Black-Scholes-Merton model. The Company s expected volatility assumption is based on the historical volatility of the Company s common stock. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

(v) Goodwill

The Company allocates goodwill from business combinations to reporting units based on the expectation that the reporting unit is to benefit from the business combination. The Company evaluates its reporting units on an annual basis and, if necessary, reassigns goodwill using a relative fair value allocation approach. Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgments, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and the determination of the fair value of each reporting unit. The Company first assesses qualitative factors to determine whether it is more likely than not that goodwill is impaired. If the more likely than not threshold is met, the Company performs a quantitative impairment test.

As of September 30, 2015, the Company determined that its goodwill was not impaired.

(w) Intangible assets

Intangible assets consist of tradenames and customer relations associated with the purchase price from the allocation of Yongkang Scrou. Such assets are being amortized over their estimated useful lives of 9.7 years. Intangible assets were straight-line amortized as of September 30, 2015.

(x) Accounting for Sale of Common Stock and Warrants

Gross proceeds are first allocated according to the initial fair value of the freestanding derivative instruments (i.e. the warrants issued to the Company s investors in its previous offerings or the Investor Warrants). The remaining proceeds are allocated to common stock. The related issuance expenses, including the placement agent cash fees, legal fees, the initial fair value of the warrants issued to the placement agent and others were allocated between the common stock and the Investor Warrants based on how the proceeds are allocated to these instruments. Expenses related to the issuance of common stock were charged to paid-in capital. Expenses related to the issuance of derivative instruments were expensed upon issuance.

NOTE 7 NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2015-01 Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items . The objective is to reduce the cost and complexity of income statement presentation by eliminating the concept of extraordinary items while maintaining or improving the usefulness of the information provided to the users of financial statements. The extraordinary items must meet two criteria: unusual nature and infrequency of occurrence. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either. This amendment will be effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The Board decided to permit early adoption provided that the guidance is applied from the beginning of the fiscal year of adoption.

The FASB has issued ASU No. 2015-03 Simplifying the Presentation of Debt Issuance Costs . The objective is to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued.

The FASB has issued ASU No. 2015-05 Intangibles-Goodwill and Other-Internal-Use Software . The objective is to provide a guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendment will not change GAAP for a customer accounting for service contracts. In addition, the guidance in this Update supersedes paragraph 350-40-25-16. Consequently, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For public business entities, the FASB decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendment will be effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities.

The FASB has issued ASU No. 2015-07 Topic 820, Fair Value Measurement , which permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments in this Update apply to reporting entities that elect to measure the fair value of an investment within the related scope by using the net asset value per share (or its equivalent) practical expedient.

The FASB has issued No. 2015-10 Technical Corrections and Improvements , which aims to address feedback received from stakeholders on the Codification and make improvements to GAAP. The amendments in this Update represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Some of the amendments will make the Codification easier to understand and apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the Codification. The amendments in this Update will apply to all reporting entities within the scope of the affected accounting guidance. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted.

The FASB has issued No. 2015-11 Topic 330,Inventory , which aims to simplify the measurement of inventory by changing the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory within the scope of this Update. The amendments in this Update do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure inventory within the scope of this Update at the lower of cost and net realizable value. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.

The FASB has issued No. 2015-14 Topic 606, Revenue from Contracts with Customers , which aims to respond to stakeholders requests to defer the effective date of the guidance in Update 2014-09 and to consider feedback received through extensive outreach with preparers, practitioners, and users of financial statements. The amendments in this Update defer the effective date of Update 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company s consolidated financial statements upon adoption.

NOTE 8 CONCENTRATIONS

(a) Customers

For the nine-month period ended September 30, 2015, the Company s major customers, each of whom accounted for more than 10% of the Company s consolidated revenue, were as follows:

Major Customers	Sales: Nine Months Ended September 30 2015	Sales: Nine Months Ended September 30 2014	Accounts Receivable: September 30 2015	Accounts Receivable: December 31 2014
Kandi Electric Vehicles (Shanghai) Co., Ltd.	29%	21%	22%	16%
Kandi Electric Vehicles (Changxing) Co., Ltd.	29%	44%	3%	17%
Kandi Electric Vehicles Group Co., Ltd.	17%	-	28%	-
Zhejiang Zuozhongyou Electric Vehicle Service Co., Ltd.	10%	-	11%	-
Shanghai Maple Auto Co., Ltd	-	15%	-	3%

For the three-month period ended September 30, 2015, the Company s major customers, each of whom accounted for more than 10% of the Company s consolidated revenue, were as follows:

Major Customers	Sales: Three Months Ended September 30 2015	Sales: Three Months Ended September 30 2014	Accounts Receivable: September 30 2015	Accounts Receivable: December 31 2014
Kandi Electric Vehicles Group Co., Ltd.	44%	-	28%	-
Kandi Electric Vehicles (Changxing) Co., Ltd.	13%	49%	3%	17%
Kandi Electric Vehicles (Shanghai) Co., Ltd.	13%	30%	22%	16%

Both Kandi Changxing and Kandi Shanghai are wholly-owned subsidiaries of the JV Company. The Company indirectly has a 50% economic interest in each of Kandi Changxing and Kandi Shanghai through its 50% ownership interest in the JV Company. For the nine months ended September 30, 2015, the Company sold $ 42,815,210 and $ 42,882,613 of battery packs, body parts, motors, air conditioning units, and other auto parts to Kandi Changxing and Kandi Shanghai, respectively. For the three months ended September 30, 2015, the Company sold $7,225,901 and $7,187,811 of battery packs, body parts, motors, air conditioning units, and other auto parts to Kandi Changxing and Kandi Shanghai, respectively. The balances due from both Kandi Changxing and Kandi Shanghai were included in amount due from JV Company, net on the Company s balance sheets. See Note 24.

The Company has 9.5% direct economic interest of the Service Company. For the three months ended September 30, 2015, the Company has the sales of $1,116,097 from the Service Company. For the nine months ended September 30, 2015, the Company has the sale of $ 14,611,084, respectively, of EV Parts to the Service Company and the balance due from it was $ 9,891,440 at September 30, 2015.

(b) Suppliers

For the nine-month period ended September 30, 2015, the Company s material suppliers, each of whom accounted for more than 10% of the Company s total purchases, were as follows:

	Purchases		**Accounts Payable**	
Major Suppliers	**Nine Months Ended September, 30 2015**	**Nine Months Ended September, 30 2014**	**September, 30 2015**	**December, 31 2014**
Zhejiang Tianneng Energy Technology Co., Ltd.	24%	-	29%	-
Dongguan Chuangming Battery Technology Co., Ltd.	17%	-	12%	-
Zhejiang Xinneng Automotive Systems Co. Ltd.	16%	16%	-	12%
Shandong Henyuan New Energy Tech Co., Ltd.	5%	30%	10%	32%
Zhongju (Tianjin) New Energy Investment Co., Ltd.	-	11%	-	29%

For the three-month period ended September 30, 2015, the Company s material suppliers, each of whom accounted for more than 10% of the Company s total purchases, were as follows:

	Purchases		Accounts Payable	
Major Suppliers	**Three Months Ended September, 30 2015**	**Three Months Ended September, 30 2014**	**September, 30 2015**	**December 31 2014**
Zhejiang Tianneng Energy Technology Co., Ltd.	29%	-	29%	-
Dongguan Chuangming Battery Technology Co., Ltd.	26%	-	12%	-
Zhejiang Xinneng Automotive Systems Co. Ltd.	-	38%	-	12%
Shandong Henyuan New Energy Tech Co., Ltd.	2%	30%	10%	32%

NOTE 9 EARNINGS (LOSS) PER SHARE

The Company calculates earnings per share in accordance with ASC 260, *Earnings Per Share*, which requires a dual presentation of basic and diluted earnings per share. Basic earnings per share are computed using the weighted average number of shares outstanding during the reporting period. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options, warrants and convertible notes (using the if-converted method). For the three months ended September 30, 2015 and 2014, the average number of potentially dilutive common shares was 0 and 315,730, respectively. For the nine months ended September 30, 2015 and 2014, the average number of potentially dilutive common shares was 274,744 and 134,824, respectively.

The following is the calculation of earnings per share for the nine-month periods ended September 30, 2015:

	For nine months ended September 30,	
	2015	2014
Net income	$ 13,900,350	$ 10,604,627
Weighted average shares used in basic computation	46,670,533	41,327,666
Dilutive shares	274,744	134,824
Weighted average shares used in diluted computation	46,945,277	41,462,490
Earnings per share:		
Basic	$ 0.30	$ 0.26
Diluted	$ 0.30	$ 0.26

The following is the calculation of earnings per share for the three-month periods ended September 30, 2015:

	For three months ended September 30,	
	2015	2014
Net income	$ 2,343,195	$ 13,533,702
Weighted average shares used in basic computation	46,959,638	43,214,455
Dilutive shares	-	315,730
Weighted average shares used in diluted computation	46,959,638	43,530,185
Earnings per share:		
Basic	$ 0.05	$ 0.31
Diluted	$ 0.05	$ 0.31

NOTE 10 - ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

	September 30, 2015	**December 31, 2014**
Accounts receivable	$ 33,912,043	$ 15,736,805
Less: Provision for doubtful debts	-	-
Accounts receivable, net	$ 33,912,043	$ 15,736,805

During the three months ended September 30, 2015 and 2014, the Company sold products to Kandi USA Inc., a company that operates under the trade name of Eliteway Motorsports (Eliteway), in the amount of $0 and $597,481, respectively. During the nine months ended September 30, 2015 and 2014, the Company sold products to Kandi USA Inc. in the amount of $0 and $2,784,596, respectively. As of September 30, 2015 and December 31, 2014, the outstanding receivable due from Eliteway were $0 and $620,410, respectively.

Mr. Hu Wangyuan was the sole shareholder and officer of Eliteway, which served as a U.S. importer of the Company's products. Mr. Hu Wangyuan is the adult son of the Company's Chairman and Chief Executive Officer, Mr. Hu Xiaoming. For the nine months ended September 30, 2015 and the year ended December 31, 2014, Eliteway and Mr. Hu Wangyuan were financially independent from the Company. The transactions between the Company and Eliteway were carried out at arm's-length without any preferential terms when compared with other customers at the comparative order size or volume.

NOTE 11 - INVENTORIES

Inventories are summarized as follows:

	September 30, 2015	December 31, 2014
Raw material	$ 14,485,371	$ 3,621,428
Work-in-progress	2,253,507	3,104,678
Finished goods	15,218,458	8,993,318
Total inventories	31,957,336	15,719,424
Less: provision for slowing moving inventories	(304,677)	(315,584)
Inventories, net	$ 31,652,659	$ 15,403,840

NOTE 12 - NOTES RECEIVABLE

Notes receivable are summarized as follows:

	September 30, 2015	December 31, 2014
Notes receivable from unrelated companies:		
Due September 30, 2015, interest at 9.6% per annum	$ 10,802,903	$ 8,117,888
Bank acceptance notes	7,982,679	942,553
Notes receivable	$ 18,785,582	$ 9,060,441

Details of Notes receivable are as below as of September 30, 2015

Inde x	Amount ($)	Counter party	Relationship	Nature	Manner of settlement
1	10,802,903	Yongkang HuiFeng Guarantee Co., Ltd	No relationship beyond loan	Receive interest income	Not due
2	690,326	Kandi Changxing	Subsidery of JV company	Payments for sales	Not due
3	75,308	Kandi Shanghai	Subsidery of JV company	Payments for sales	Not due
4	941,354	Zhejiang Zuozhongyou	Other equity interest of the Company	Payments for sales	Not due
5	6,275,691	Kandi Vehicle	Notes were originally transferred from client	Payments for sales	Not due

Details of Notes Receivable are as below as of December 31, 2014

Index	Amount ($)	Counter party	Relationship	Nature	Manner of settlement
1	8,117,888	Yongkang HuiFeng Guarantee Co., Ltd	No relationship beyond loan	Receive interest income	Not due
2	406,273	Kandi Changxing	Subsidiary of JV company	payment for sales	Not due
3	455,025	Kandi Shanghai	Subsidiary of JV company	payment for sales	Not due
4	81,255	Kandi Jinhua	Subsidiary of JV company	payment for sales	Not due

NOTE 13 PLANT AND EQUIPMENT

Plant and equipment consisted of the following:

	September 30, 2015	December 31, 2014
At cost:		
Buildings	$ 14,059,394	$ 14,492,949
Machinery and equipment	9,406,955	7,916,281
Office equipment	405,079	283,494
Motor vehicles	342,648	355,547
Moulds	33,338,265	34,523,167
	57,552,341	57,571,438
Less : Accumulated depreciation		
Buildings	$ (3,707,675)	$ (3,480,417)
Machinery and equipment	(8,782,551)	(7,371,047)
Office equipment	(244,074)	(220,944)
Motor vehicles	(268,932)	(254,331)
Moulds	(22,706,306)	(19,972,647)
	(35,709,538)	(31,299,386)
Less: provision for impairment for fixed assets	(54,737)	(56,696)
Plant and equipment, net	$ 21,788,066	$ 26,215,356

As of September 30, 2015 and December 31, 2014, the net book value of plant and equipment pledged as collateral for bank loans was $10,066,053 and $10,816,480, respectively.

Depreciation expenses for the nine months ended September 30, 2015 and 2014, was $4,036,771 and $3,814,892, respectively. Depreciation expenses for the three months ended September 30, 2015 and 2014, was $1,317,383 and $1,274,860, respectively.

NOTE 14 LAND USE RIGHTS

The Company s land use rights consisted of the following:

	September 30, 2015	December 31, 2014
Cost of land use rights	$ 17,299,281	$ 17,786,170
Less: Accumulated amortization	(2,473,028)	(2,137,018)
Land use rights, net	$ 14,826,253	$ 15,649,152

As of September 30, 2015 and December 31, 2014, the net book value of land use rights pledged as collateral for the Company s bank loans was $9,754,026 and $9,665,834, respectively. Also see Note 17.

The amortization expense for the nine months ended September 30, 2015 and 2014 was $290,559 and $281,143, respectively. The amortization expense for the three months ended September 30, 2015 and 2014 was $95,332 and $97,238, respectively. Amortization expenses for the next five years and thereafter are as follows:

2015 (three months)	$ 96,853
2016	387,412
2017	387,412
2018	387,412
2019	387,412
Thereafter	13,179,752
Total	$ 14,826,253

NOTE 15 - CONSTRUCTION-IN-PROGRESS

Construction-in-progress (CIP) relates to the facility being built in Wanning City of Hainan Province.

Kandi Wanning facility

In April 2013, Kandi Electric Vehicles (Wanning) Co., Ltd. (Kandi Wanning) was formed in Wanning City of Hainan Province. The Company signed an agreement with Wanning city government and planned to invest a total of RMB 1 billion, or $156,892,278, to develop a factory in Wanning with an annual production of 100,000 EVs. In 2013, the Company contracted with an unrelated third party equipment supplier, Nanjing Shangtong Auto Technologies Co., Ltd. (Nanjing Shangtong), to purchase equipment. The equipment was purchased and delivered according to the construction schedule and development of Kandi Wanning. As of September 30, 2015, a total amount of advances to suppliers of RMB 353,000,000, or $55,382,974, made by Kandi Wanning to Nanjing Shangtong for equipment purchases was transferred to Construction in Process (CIP). None of CIP was transferred to property, plant and equipment at September 30, 2015.

Because the government of Hainan Province is enforcing a new plan to centralize the manufacturing in designated industry park, the Wanning facility was required to move from Wanning City to the national high tech development zone in Haikou City. After relocation, Kandi Wanning is expected to obtain more support from the government of Hainan Province and Haikou City. Currently the relocation is in process. Although causing certain delay to our production, Kandi Wanning will eventually benefit from the relocation because Haikou City is the capital of Hainan Province. In addition, all related expenses caused by the relocation is expected to be compensated by local government.

No depreciation is provided for CIP until such time as the facility is completed and placed into operation.

Information with respect to the Company s CIP as of September 30, 2015 is as follow:

Project		Total in CIP as of September 30, 2015		Estimated Cost to Complete		Estimated Total Cost	Estimated Completion Date
Kandi Wanning facility	$	56,525,652	$	100,366,626	$	156,892,278	June 30, 2017
Total	$	56,525,652	$	100,366,626	$	156,892,278	

As of September 30, 2015 and December 31, 2014, the Company had CIP amounting to $56,525,652 and $58,510,051, respectively.

No interest expense has been capitalized for CIP at the end of September 30, 2015 and December 31, 2014, respectively.

NOTE 16 LONG TERM INVESTMENT

In August 2015, according to the agreement, the JV Company transferred 50% of the total 19% equity share of the Service Company to Shanghai Guorun and Kandi Vehicles respectively, thus Kandi Vehicles has directly own 9.5% of the Service Company. The total equity of the Service Company is $15,689,228, and the long term investment to the Service Company from Kandi Vehicles was 1,490,477 as at the end of September 30, 2015.

NOTE 17 SHORT TERM BANK LOANS

Short-term loans are summarized as follows:

	September 30, 2015	December 31, 2014
Loans from China Ever-bright Bank		
Interest rate up to 18% based on the base rate (The current base rate for a one-year loan is 7.08%, effective from March 1, 2015), paid off on May 11, 2015, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd. Also see Note 13 and Note 14.	-	12,675,713
Interest rate 5.778% per annum, consist of $6,589,475 due October 28, 2015 and $5,648,122 due November 5, 2015, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Mr. Hu Wangyuan , Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd. Also see Note 13 and Note 14.	12,237,597	-
Loans from China Evergrowing Bank		
Interest rate up to 20% based on the base rate (The current base rate for a one-year loan is 7.20%, effective from March 1, 2015), due April 22, 2015, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, and Zhejiang Shuguang industrial Co., Ltd.	-	3,250,183
Loans from Hangzhou Bank		
Interest rate 6.00% per annum, due October 20, 2015, secured by the assets of the Company. Also see Note 13 and Note 14.	7,656,343	7,930,446
Interest rate 6.00% per annum, due November 17, 2015, secured by the assets of the Company. Also see Note 13 and Note 14.	-	11,733,160
Interest rate 4.85% per annum, due July 2, 2016, secured by the assets of the Company. Also see Note 13 and Note 14.	7,844,614	-
Interest rate 4.85% per annum, due July 12, 2016, secured by the assets of the Company. Also see Note 13 and Note 14.	3,483,009	-
Interest rate 5.35% per annum, due March 23, 2016, secured by the assets of the Company. Also see Note 13 and Note 14.	6,118,799	-
	$ 37,340,362	$ 35,589,502

The interest expenses for the nine months ended September 30, 2015 and 2014 were $1,712,872 and $1,728,432, respectively. The interest expenses for the three months ended September 30, 2015 and 2014 were $528,285 and $558,806, respectively.

As of September 30, 2015, the aggregate amount of short-term loans that was guaranteed by various third parties was $12,237,597.

No.	Amount	Guarantor
1	$ 12,237,597	Jointly guaranteed by Zhejiang Mengdeli Electric Co Ltd (ZMEC) and Nanlong Group Co., Ltd. For Nanlong Group Co., Ltd, whose bank loans of $3,137,846 was also guaranteed by the Company. Also see Note 25.

It is a common business practice among companies in the region of the PRC in which the Company is located to exchange guarantees for bank debts with no additional consideration given. It is considered a favor for favor business practice and is commonly required by Chinese lending banks, as in these cases.

NOTE 18 NOTES PAYABLE

By issuing bank notes payables rather than paying cash to suppliers, the Company can defer the payments until the date the bank notes payable are due. Simultaneously, the Company may need to deposit restricted cash in banks to back up the bank notes payable. The restricted cash deposited in banks will generate interest income.

Notes payable are summarized as follows:

	September 30 2015	December 31, 2014
Bank acceptance notes:		
Due April 30, 2015	$ -	$ 4,062,729
Due May 4, 2015	-	826,846
Due June 2, 2015	-	812,546
Due December 1, 2015	3,137,846	-
Total	$ 3,137,846	$ 5,702,121

A bank acceptance note is a promised future payment or time draft, which is accepted and guaranteed by a bank and drawn on a deposit at the bank. The banker's acceptance note specifies the amount of money, the date, and the person to which the payment is due.

After acceptance, the draft becomes an unconditional liability of the bank. But the holder of the draft can sell (exchange) it for cash at a discount to a buyer who is willing to wait until the maturity date for the funds in the deposit.

All of the bank acceptance notes do not bear interest, but are subject to bank charges of 0.05% of the principal as a commission on each transaction. Bank charges for notes payable were $6,585 and $6,498 for the nine months ended September 30, 2015 and 2014, respectively. Bank charges for notes payable were $1,616 and $0 for the three months ended September 30, 2015 and 2014, respectively.

No restricted cash was held as collateral for the notes payable as of September 30, 2015 and December 31, 2014.

NOTE 19 BOND PAYABLE

On December 27, 2013, the Company issued a bond in the amount of RMB 80,000,000, or $13,000,731, to China Ever-bright Securities Co. Ltd. and CITIC Securities Company Limited. The term of this bond was 3 years, and the material terms of this bond were similar to the terms of the bond issued in 2012 and repaid in August 2013, except that the interest rate was reduced to 11.5%. Bond interest was payable on December 27 in each of 2014, 2015 and 2016. In October 2014, the Company repaid, without a prepayment penalty, all principal and interest to China Ever-bright Securities Co. Ltd. and CITIC Securities Company Limited. For the year ended December 31, 2014, $1,262,691 of interest expense was paid. There was no bond payable as of September 30, 2015 and December 31, 2014 respectively.

NOTE 20 TAXES

(a) Corporation Income Tax

In accordance with the relevant tax laws and regulations of the PRC, applicable corporate income tax (CIT) rate is 25%. However, Kandi Vehicle is qualified as a high technology company in China and is entitled to pay income tax at a reduced rate of 15%. The applicable CIT rate of each of Kandi Vehicle's three subsidiaries, Kandi New Energy, Yongkang Scrou and Kandi Wanning, the JV Company and its subsidiaries and the Service Company is 25%.

The Company is qualified as a high technology company in China and is entitled to pay a reduced CIT rate of 15%. After combining with the research and development tax credit of 25% on certain qualified research and development expenses, the final effective reduced income tax rate is 37.16%. The combined tax benefits were 44.25%. The actual effective income tax rate was reduced from 25% to 13.94% at September 30, 2015.

According to the PRC CIT reporting system, the CIT sales cut-off base is concurrent with the value-added tax (VAT), which should be reported to the State Administration of Taxation (SAT) on a quarterly basis. Since the VAT and CIT are accounted for on a VAT tax basis that recorded all sales on a State provided official invoices reporting system, the Company is reporting the CIT according to the SAT prescribed tax reporting rules. Under the VAT tax reporting system, sales cut-off is not done on an accrual basis but rather on a VAT taxable reporting basis. Therefore, when the Company adopted U.S. GAAP using an accrual basis, the sales cut-off CIT timing (due to the VAT reporting system) created a temporary sales cut-off timing difference. This difference is reflected in the deferred tax assets or liabilities calculations on the income tax estimate reported in the Company s annual report on Form 10-K.

Effective January 1, 2007, the Company adopted ASC 740, *Income Taxes*. The interpretation 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 ASC 740, *Income Taxes*, 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. ASC 740 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

As of September 30, 2015, the Company did not have a liability for unrecognized tax benefits. The Company files income tax returns with the U.S. Internal Revenue Services (IRS) and state tax authorities where the Company has operations. The Company is subject to U.S. federal or state income tax examinations by the IRS and relevant state tax authorities for years after 2006. During the periods open to examination, the Company has net operating loss carry forwards (NOLs) for U.S. federal and state tax purposes that have attributes from closed periods. Since these NOLs may be utilized in future periods, they remain subject to examination. The Company also files certain tax returns in China. As of September 30, 2015, the Company was not aware of any pending income tax examinations by U.S. or China tax authorities. The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of September 30, 2015, the Company has no accrued interest or penalties related to uncertain tax positions. The Company has not recorded a provision for U.S. federal income tax for the three months or nine months ended September 30, 2015 due to the accumulated net operating loss carry forward from prior years in the United States.

Income tax expense for the nine months ended September 30, 2015 and 2014 is summarized as follows:

	For Nine Months Ended September 30, (Unaudited)	
	2015	**2014**
Current:		
Provision for CIT	$ 3,175,287	$ 1,269,408
Provision for Federal Income Tax	-	-
Deferred:		
Provision for CIT	-	-
Income tax expense	$ 3,175,287	$ 1,269,408

The Company s income tax expense differs from the expected tax expense for the nine months ended September 30, 2015 and 2014 (computed by applying the U.S. Federal Income Tax rate of 34% and PRC CIT rate of 25%, respectively, to income before income taxes) as follows:

	For Nine Months Ended September 30, (Unaudited) 2015		2014
Computed expected expense	$ (322,716)	$	1,594,293
Favorable tax rate	(880,016)		(368,675)
Permanent differences	280,798		(877,509)
Valuation allowance	4,097,221		921,299
Income tax expense	$ 3,175,287	$	1,269,408

The tax effects of temporary differences that give rise to the Company s net deferred tax assets and liabilities as of September 30, 2015 and December 31, 2014 are summarized as follows:

	September 30 2015 (Unaudited)	December 31 2014
Current portion:		
Deferred tax assets (liabilities):		
Expense	$ 163,944	$ (80,016)
Subtotal	163,944	(80,016)
Deferred tax assets (liabilities):		
Sales cut-off difference derived from Value Added Tax reporting system to calculate PRC Corporation Income Tax in accordance with the PRC State Administration of Taxation	(329,933)	(26,226)
Other	(90,059)	(124,622)
Subtotal	(419,992)	(150,848)
Total deferred tax assets (liabilities) current portion	(256,049)	(230,864)
Non-current portion:		
Deferred tax assets (liabilities):		
Depreciation	(402,934)	(551,697)
Loss carried forward	4,097,221	3,025,997
Valuation allowance	(4,097,221)	(3,025,997)
Subtotal	(402,934)	(551,697)
Deferred tax liabilities:		
Accumulated other comprehensive gain	-	(1,715,028)
Subtotal	-	(1,715,028)
Total deferred tax assets non-current portion	(402,934)	(2,266,725)
Net deferred tax assets (liabilities)	$ (658,982)	$ (2,497,589)

(b) Tax Benefit (Holiday) Effect

For the nine months ended September 30, 2015 and 2014, the PRC CIT rate was 25%. Certain subsidiaries of the Company were entitled to tax benefit (holidays) for the nine months ended September 30, 2015 and 2014.

The combined effects of the income tax expense exemptions and reductions available to the Company for the three and nine months ended September 30, 2015 and 2014 were as follows:

	For Nine Months Ended September 30, (Unaudited)	
	2015	2014
Tax benefit (holiday) credit	$ 880,016	$ 368,675
Basic net income per share effect	$ 0.019	$ 0.009

NOTE 21 - STOCK OPTIONS AND WARRANTS

(a) Stock Options

On February 11, 2009, the Compensation Committee of the Board of Directors of the Company approved the grant of stock options to purchase 2,600,000 shares of common stock at an exercise price of $0.80 per share to ten of the Company s employees and directors. The stock options vested ratably over three years and expire on the tenth anniversary of the grant date. The Company valued the stock options at $2,062,964 and amortized the stock compensation expense using the straight-line method over the service period from February 11, 2009 through February 11, 2012. The value of the options was estimated using the Black Scholes Model with an expected volatility of 164%, expected life of 10 years, risk-free interest rate of 2.76% and expected dividend yield of 0.00% . On June 30, 2011, one of the Company's directors resigned, and his 6,668 unexercised options were forfeited. As of December 31, 2013, options for 2,366,672 shares have been exercised and options for 6,668 shares have been forfeited. As of December 31, 2014, options for 2,593,332 shares had been exercised and options for 6,668 shares had been forfeited.

On October 6, 2009, the Company executed an agreement with Wang Rui and Li Qiwen, third-party consultants, whereby Mr. Wang and Mr. Li were to provide to the Company business development services in China in exchange for options to purchase 350,000 shares of the Company s common stock at an exercise price of $1.50 per share. Per the agreement, options to purchase 250,000 shares vested and became exercisable on March 6, 2010, and options to purchase 100,000 shares vested and became exercisable on June 6, 2010. The options are issued under and subject to the terms of the Company s 2008 Omnibus Long-Term Incentive Plan. As of December 31, 2014, options for 250,000 shares had been exercised and options for 100,000 shares had been forfeited due to the non-performance of services.

On May 29, 2015, the Compensation Committee of the Board of Directors of the Company approved the grant of stock options to purchase 4,900,000 shares of common stock at an exercise price of $9.72 per share to the Company s senior staff. The stock options will vest ratably over three years and expire on the tenth anniversary of the grant date. The Company valued the stock options at $ 39,990,540 and will amortize the stock compensation expense using the straight-line method over the service period from May 29, 2015 through May 29, 2018. The value of the options was estimated using the Black Scholes Model with an expected volatility of 90%, expected life of 10 years, risk-free interest rate of 2.23% and expected dividend yield of 0.00% .

(b) Warrants

On June 26, 2013, the Company entered into a securities purchase agreement (the 2013 Securities Purchase Agreement) with certain institutional investors (the Third Round Investors) that closed on July 1, 2013, pursuant to which the Company sold to the Third Round Investors, in a registered direct offering, an aggregate of 4,376,036 shares of the Company s common stock at a negotiated purchase price of $6.03 per share. Under the 2013 Securities Purchase Agreement, the Third Round Investors also received Series A warrants for the purchase of up to 1,750,415 shares of the Company s common stock at an exercise price of $7.24 per share and an option to make an additional investment in the form of Series B warrants and Series C warrants, Series B warrants to purchase a maximum aggregate of 728,936 shares of the Company s common stock at an exercise price of $7.24 per share and Series C warrants to purchase a maximum aggregate of 291,574 shares of the Company s common stock at an exercise price of $8.69 (the Third Round Warrants). In addition, the placement agent for this transaction also received warrants for the purchase of up to 262,562 shares of the Company s common stock at an exercise price of $7.24 per share (the Third Round Placement Agent Warrants), which will expire on July 1, 2016, with a fair value of $0.53 per share. As of June 30, 2014, all the Third Round Warrants had been exercised on a cash basis.

On January 15, 2014, the Company sold to certain institutional investors warrants to purchase an aggregate of 1,429,393 shares of the Company s common stock at an exercise price of $15 per share (the January 2014 Warrants)for a total purchase price of approximately $14,294. According to the warrant subscription agreement by and among the Company and the holders, the exercise price was reduced by a credit of $0.01, which reflected the price per warrant share paid in connection with the issuance of the January 2014 Warrants. Consequently, the effective exercise price per warrant share is $14.99. The January 2014 Warrants expired on January 30, 2015 and no investors exercised their warrants.

On March 19, 2014, the Company entered into a securities purchase agreement with certain purchasers (the Fourth Round Investors), pursuant to which the Company sold to the Fourth Round Investors, in a registered direct offering, an aggregate of 606,000 shares of common stock, at a negotiated purchase price of $18.24 per share, for aggregate gross proceeds to the Company of approximately $11,053,440, before deducting fees to the placement agent and other estimated offering expenses payable by the Company. As part of the transaction, the Fourth Round Investors also received warrants for the purchase of up to 90,900 shares of the Company s common stock at an exercise price of $22.80 per share (the Fourth Round Warrants). In addition, the placement agent for this transaction also received warrants for the purchase of up to 36,360 shares of the Company s common stock at an exercise price of $22.80 per share, which was adjusted to $9.72 on July 27, 2015. The Fourth Round Warrants have a term of eighteen months and are exercisable by the holders at any time after the date of issuance. On August 8, 2015, the Company extended the expiration date of these warrants from September 21, 2015 to January 20, 2016. As of September 30, 2015, the fair value of the Fourth Round Warrants was $0.44 per share.

On September 4, 2014, the Company entered in a securities purchase agreement with certain purchasers (the Fifth Round Investors), pursuant to which the Company sold to the Fifth Round Investors, in a registered direct offering, an aggregate of 4,127,908 shares of its common stock at a price of $17.20 per share, for aggregate gross proceeds to the Company of approximately $71 million, before deducting fees to the placement agent and other estimated offering expenses payable by the Company (the Fifth Round Financing). As part of the transaction, the Fifth Round Investors also received warrants for the purchase of up to 743,024 shares of the Company s common stock at an exercise price of $21.50 per share (the Fifth Round Warrants), which was adjusted to $9.72 on July 27, 2015. The Fifth Round Warrants have a term of seventeen months and are exercisable by the holders at any time after the date of issuance. On August 8, 2015, the Company extended the expiration date of these warrants from February 4, 2016 to June 3, 2016. In addition, the placement agent for this transaction also received warrants for the purchase of up to 206,395 shares of the Company s common stock at an exercise price of $20.64 per share. The placement agent s warrants are exercisable for a term of seventeen months after the six months from the issuance. As of September 30, 2015, the fair value of the Fifth Round Warrants was $0.34 per share and the fair value of the Fifth Round Placement Agent Warrants was $0.46 per share.

In addition, any Fifth Round Investor that invested more than $30 million in the initial offering of shares and warrants in the Fifth Round Financing had an option to purchase its pro rata share of up to a $30 million of shares, or 1,744,186 shares of common stock, and its pro rata share of warrants to purchase an aggregate of up to 313,954 shares of the Company s common stock at $17.20 for a period commencing on September 4, 2014 and ending on November 17, 2014. As of November 17, 2014, none of the Fifth Round Investors that invested more than $30 million in the initial offering of shares and warrants in the Fifth Round Financing exercised this option and such option expired.

NOTE 22 STOCK AWARD

In connection with the appointment of Mr. Henry Yu as a member of the Board of Directors (the Board), and as compensation, the Board authorized the Company to provide Mr. Henry Yu with 5,000 shares of Company's restricted common stock every six months, beginning in July 2011.

As compensation for having Mr. Jerry Lewin to serve as a member of the Board, the Board authorized the Company to provide Mr. Jerry Lewin with 5,000 shares of Company's restricted common stock every six months, beginning in August 2011.

As compensation for having Ms. Kewa Luo to serve as the Company s investor relation officer, the Board authorized the Company to provide Ms. Kewa Luo with 5,000 shares of Company's common stock every six months, beginning in September 2013.

As compensation for having Mr. Wei Chen serve as CEO assistant, the Board authorized the issuance by the Company to Mr. Chen 10,000 shares of Company s common stock every year beginning in January 2012 ending December 31, 2013 and 2,500 shares of Company s common stock every three months, beginning in January 2014 until May 30, 2014. As of June 1, 2014, Mr. Chen was no longer with the Company.

The fair value of stock awards based on service is determined based on the closing price of the common stock on the date the shares are granted. The compensation costs for awards of common stock are recognized over the requisite service period of six months.

On December 30, 2013, the Board approved a proposal (as submitted by the Compensation Committee) of an award for selected executives and other key employees comprising a total of 335,000 shares of common stock for each fiscal year, beginning with the 2013 fiscal year, under the Company s 2008 Omnibus Long-Term Incentive Plan (the Plan), if the Company s Non-GAAP Net Income for the current fiscal year increased by 10% comparing to that of the prior year. The specific number of shares of common stock to be issued in respect of such award could proportionally increase or decrease if the actual Non-GAAP Net Income increase is more or less than 10%. Non-GAAP Net Income means the Company s net income for a particular year calculated in accordance with GAAP, excluding option-related expenses, stock award expenses, and the effects caused by the change of fair value of financial derivatives. For example, if Non-GAAP Net Income for the 2014 fiscal year increased by 10% compared to the Non-GAAP Net Income for the 2013 fiscal year, the selected executives and other key employees each would be granted his or her target amount of common stock of the Company. If Non-GAAP Net Income in 2014 is less than Non-GAAP Net Income in 2013, then no common stock would be granted. If Non-GAAP Net Income in 2014 increased compared to Non-GAAP Net Income in 2013 but the increase is less than 10%, then the target amount of the common stock grant would be proportionately decreased. If Non-GAAP Net Income in 2014 increased compared to Non- GAAP Net Income in 2013 but the increase is more than 10%, then the target amount of the common stock grant would be proportionately increased up to 200% of the target amount. Any such increase in the grant would be subject to the total number of shares available under the Plan, and the Company s Board and shareholders will need to approve an increase in the number of shares reserved under the Plan if the number of shares originally reserved is used up. On May 20, 2015, the shareholders of the Company approved an increase of 9,000,000 shares under the Plan at its annual meeting. The fair value of each award granted under the Plan is determined based on the closing price of the Company s stock on the date of grant of the award. To the extent that the performance goal is not met and so no shares become due, no compensation cost is recognized and any recognized compensation cost during the applicable year is reversed. The number of shares of common stock granted under the Plan with respect to fiscal 2014 would be 670,000 shares based on the Non-GAAP Net Income of the year of 2014. The compensation expense is recognized in General and Administrative Expenses. On April 17, 2015 and June 12, 2015, the Company granted 550,000 shares and 120,000 shares, respectively, to the senior management and key employee as year 2014 performance awards.

NOTE 23 INTANGIBLE ASSETS

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets other than goodwill:

	Remaining useful life	**September 30, 2015**	**December 31, 2014**
Gross carrying amount:			
Trade name	6.25 years	$ 492,235	$ 492,235

The aggregate amortization expense for those intangible assets that continue to be amortized is reflected in amortization of intangible assets in the consolidated statements of income and comprehensive income was both $20,524 for the three-months ended September 30, 2015 and 2014, respectively, and both $61,571 for the nine-month period ended September 30, 2015 and 2014, respectively.

Amortization expense for the next five years and thereafter is as follows:

2015 (three months)	$ 20,524
2016	82,095
2017	82,095
2018	82,095
2019	82,095
Thereafter	166,926
Total	$ 515,830

NOTE 24 SUMMARIZED INFORMATION OF EQUITY METHOD INVESTMENT IN THE JV COMPANY

The Company s consolidated net income includes the Company s proportionate share of the net income or loss of the Company s equity method investees. When the Company records its proportionate share of net income, it increases equity income (loss) net in the Company s consolidated statements of income and the Company s carrying value in that investment. Conversely, when the Company records its proportionate share of a net loss, it decreases equity income (loss) net in the Company s consolidated statements of income and the Company s carrying value in that investment. All intra-entity profits and losses with the Company s equity method investees have been eliminated.

Kandi Electric Vehicles Group Co., Ltd. (the JV Company)

In March 2013, pursuant to a joint venture agreement (the JV Agreement) entered into between Kandi Vehicles and Shanghai Maple Guorun Automobile Co., Ltd. (Shanghai Guorun), a 99%-owned subsidiary of Geely Automobile Holdings Ltd. (Geely), the parties established Zhejiang Kandi Electric Vehicles Co., Ltd. (the JV Company) to develop, manufacture and sell electric vehicles (EVs) and related auto parts. Each of Kandi Vehicles and Shanghai Guorun has a 50% ownership interest in the JV Company. In the fourth quarter of 2013, Kandi Vehicles entered into an ownership transfer agreement with the JV Company pursuant to which Kandi Vehicles transferred 100% of its ownership in Kandi Changxing to the JV Company. As a result, the Company indirectly has a 50% economic interest in Kandi Changxing through its 50% ownership interest in the JV Company after this transfer. In November 2013, Zhejiang Kandi Electric Vehicles Jinhua Co., Ltd. (Kandi Jinhua) was formed by the JV Company. The JV Company has 100% ownership interest in Kandi Jinhua, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jinhua. In November 2013, Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. (JiHeKang) was formed by the JV Company. The JV Company has 100% ownership interest in JiHeKang, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in JiHeKang. In December 2013, the JV Company entered into an ownership transfer agreement with Shanghai Guorun pursuant to which the JV Company acquired 100% ownership of Kandi Electric Vehicles (Shanghai) Co., Ltd. (Kandi Shanghai). As a result, Kandi Shanghai is a wholly-owned subsidiary of the JV Company, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Shanghai. In January 2014, Zhejiang Kandi Electric Vehicles Jiangsu Co., Ltd. (Kandi Jiangsu) was formed by the JV Company. The JV Company has 100% ownership interest in Kandi Jiangsu, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jiangsu. In addition, In July 2013, Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. (the Service Company) was formed. The JV Company has a 19% ownership interest in the Service Company. In March 2014, the JV Company changed its name to Kandi Electric Vehicles Group Co., Ltd. In August 2015, the JV Company transferred its shares of the Service Company to Shanghai Guorun and Kandi Vehicles for 9.5% respectively. As the result, the JV Company no longer has any ownership of the Service Company since the transfer.

As of September 30, 2015, the JV Company consolidated the following entities on its financial statements: (1) 100% interest in Kandi Changxing; (2) 100% interest in Kandi Jinhua; (3) 100% interest in JiHeKang; (4) 100% interest in Kandi Shanghai; and (5) 100% interest in Kandi Jiangsu.

The Company accounted for its investments in the JV Company under the equity method of accounting as the Company has a 50% ownership interest in the JV Company. Therefore, the Company s consolidated net income for the three months and nine months ended September 30, 2015, included equity income from the JV Company during such periods.

The combined results of operations and financial position of the JV Company are summarized below:

	Three months ended September 30, 2015	Three months ended September 30, 2014
Condensed income statement information:		
Net sales	$ 98,447,939	$ 46,847,556
Gross income	13,325,271	7,025,415
% of net sales	13.5%	15.0%
Net income	1,611,658	4,398,828
% of net sales	1.6%	9.4%
Company s equity in net income of JV	$ 805,829	$ 2,199,414

	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Condensed income statement information:		
Net sales	$ 197,965,282	$ 126,763,793
Gross income	31,958,679	13,944,898
% of net sales	16.1%	11.0%
Net income	4,000,781	6,782,272
% of net sales	2.0%	5.4%
Company s equity in net income of JV	$ 2,000,390	$ 3,391,136

		September 30, 2015		December 31, 2014
Condensed balance sheet information:				
Current assets	$	308,146,994	$	262,543,256
Noncurrent assets		187,581,237		194,229,114
Total assets	$	495,728,231	$	456,772,370
Current liabilities		310,842,828		280,779,432
Noncurrent liabilities		19,787,767		9,006,787
Equity		165,097,636		166,986,151
Total liabilities and equity	$	495,728,231	$	456,772,370

During the nine months ended September 30, 2015, 100% of the JV Company s revenues were derived from the sales of EV products in the PRC with a total of 12,120 units sold, 3,647 units of which were direct sales through the distribution company, or JiHeKang, and the rest were sold to Micro Public Transportation Program (MTP ,or the EV-Share Program). As the Company only has a 50% ownership interest in the JV Company and accounted for its investments in the JV Company under the equity method of accounting, the Company didn t consolidate the JV Company s financial results but included equity income from the JV Company during such periods.

Note: The following table illustrates the captions used in the Company s Income Statements for its equity basis investments in the JV Company.

Changes in the Company s equity method investment in JV Company for the nine months ended September 30, 2015 and 2014 were as follows:

	Nine months ended September 30,			
		2015		2014
Investment in JV Company, beginning of the period,	$	83,309,095	$	79,331,930
Share of profit		2,000,390		3,391,136
Intercompany transaction elimination		(283,267)		(544,941)
Year 2014 unrealized profit realized		183,005		911,023
Exchange difference		(2,935,339)		(544,772)
Investment in JV Company, end of the period	$	82,273,884	$	82,544,376

Sales to the Company s customers, the JV Company and its subsidiaries, for the three months ended September 30, 2015, were $31,888,768, and they were primarily the sales of battery packs, body parts, EV drive motors, EV controllers, air conditioning units and other auto parts, of which the majority of sales were to the JV Company amounted to $19,593,174, Kandi Changxing amounted to $7,245,341and Kandi Shanghai amounted to $ 5,061,218. These EV parts were used in manufacturing of pure EV products by the JV Company s subsidiaries to sell entirely to the JV Company s customer via Zhejiang Geely Automobile Company Limited (Zhejiang Geely). Zhejiang Geely holds the country s vehicle production rights, equivalent to license, for sedans, which qualifies it to sell the EV products to the end customers. Zhejiang Geely is 90% owned by Zhejiang Geely Holding Group Company Limited and 10% owned by Zhejiang Maple Asset Management Co. Ltd. According to the JV Agreement, before the JV Company received vehicle production rights (license), the JV Company and its subsidiaries all may sell their products through the channel of Zhejiang Geely s vehicle production rights (license) to the end customers or the Service Company, which purchased and used the cars in Hangzhou Micro Public Transportation project and group long-term lease project. With the total sales to the JV Company and its subsidiaries, approximately 85% for the nine months ended September 30, 2015 and approximately 79% for the three months ended September 30, 2015 of the total sales were related to the sales of battery packs because Kandi New Energy holds a production rights (license) to manufacture requisite battery packs used in manufacturing of Kandi brand s EVs. Under the JV Agreement, the Company s EV product manufacturing business has been completely transferred to the JV Company. The Company is mainly responsible for supplying the JV Company with EV parts and the JV Company is responsible for producing EV products and for selling finished goods through channels to its end customers.

As of September 30, 2015 and December 31, 2014, the amount due from the JV Company, net was $76,814,162 and $51,450,612, respectively, of which the majority was the balances with Kandi Jinhua, Kandi Changxing, Kandi Shanghai. The breakdown was as below:

	September 30, 2015	December 31, 2014
Kandi Shanghai	$ 20,274,877	$ 6,978,618
Kandi Changxing	2,662,919	7,359,202
Kandi Jinhua	7,249,376	12,736,420
JV Company	46,626,990	24,376,372
Consolidated JV Company	$ 76,814,162	$ 51,450,612

Within the receivables from the JV Company, the $23,533,842 was a one-year entrusted loan that Kandi Vehicle lent to the JV Company from December 16, 2014 to December 15, 2015 carrying an annual interest rate determined by using the People's Bank of China floating benchmark lending rate on the date of withdraw plus 5% of that rate. The rate will not be adjusted after the withdraw during the lending period, which was 5.88% . The loan was organized by Bank of Communications Hangzhou Zhongan Branch as the agent bank between Kandi Vehicle and the JV Company. Entrusted loans are commonly found in China, where direct borrowing and lending between commercial enterprises are restricted.

NOTE 25 COMMITMENTS AND CONTINGENCIES

Guarantees and Pledged collateral for third party bank loans

As of September 30, 2015 and December 31, 2014, the Company provided guarantees for the following third parties:

(1) Guarantees for bank loans

Guarantee provided to		**September 30,** 2015		**December 31,** 2014
Zhejiang Kangli Metal Manufacturing Company.	$	-	$	4,875,274
Zhejiang Shuguang industrial Co., Ltd.		4,549,876		4,875,274
Nanlong Group Co., Ltd.		3,137,846		9,750,548
Total	$	7,687,722	$	19,501,096

On September 29, 2015, the Company entered into a guarantee contract to serve as the guarantor for the bank loan borrowed from Ping An Bank in the amount of $4,549,876 by Zhejiang Shuguang Industrial Co., Ltd. (ZSICL) for the period from September 29, 2015 to September 28, 2016. ZSICL is not related to the Company. Under these guarantee contracts, the Company agrees to perform all obligations of ZSICL under the loan contracts if ZSICL fails to perform its obligations as set forth therein.

On March 15, 2013, the Company entered into a guarantee contract to serve as the guarantor for the bank loans borrowed from Shanghai Pudong Development Bank Jinhua Branch in the amount for the total amount $3,137,846 by Nanlong Group Co., Ltd. (NGCL) for the period from March 15, 2013 to March 15, 2016. NGCL is not related to the Company. Under this guarantee contract, the Company agrees to perform all obligations of NGCL under the loan contract if NGCL fails to perform its obligations as set forth therein.

(2) Pledged collateral for third parties bank loans

As of September 30, 2015 and December 31, 2014, none of the Company s land use rights or plant and equipment were pledged as collateral securing bank loans to third parties.

NOTE 26 SEGMENT REPORTING

The Company has only one single operating segment. The Company s revenue and long-lived assets are primarily derived from and located in the PRC. The Company only has operations in the PRC.

The following table sets forth revenues by geographic area for the nine months ended September 30, 2015 and 2014, respectively:

	Nine Months Ended September 30,			
	2015		2014	
	Sales Revenue	Percentage	Sales Revenue	Percentage
Overseas	$ 3,380,570	2%	$ 6,005,588	5%
China	138,892,521	98%	111,332,763	95%
Total	$ 142,273,091	100%	$ 117,338,351	100%

The following table sets forth revenues by geographic area for the three months ended September 30, 2015 and 2014, respectively:

	Three Months Ended September 30,			
	2015		2014	
	Sales Revenue	Percentage	Sales Revenue	Percentage
Overseas	$ 1,436,398	3%	$ 2,650,592	6%
China	49,092,147	97%	41,556,400	94%
Total	$ 50,528,545	100%		