

Kandi Technologies Corp  
Form 10-Q  
May 15, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

\_\_\_\_\_  
**FORM 10-Q**

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

For the quarterly period ended March 31, 2008

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 000-52186

**Kandi Technologies, Corp.**

(Exact name of registrant as specified in charter)

**Delaware**  
(State or other jurisdiction  
of  
incorporation or  
organization)

**87-0700927**  
(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 - 0579) 82239700**  
(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  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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a  
smaller reporting company)

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

As of May 8, 2008 the registrant had issued and outstanding 19,961,000 shares of common stock, par value \$.001 per share.

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**PART I-- FINANCIAL INFORMATION**

**Item 1. Financial Statements. (Unaudited)**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements included in this Form 10-Q reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

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**KANDI TECHNOLOGIES, CORP.**  
**(FORMERLY STONE MOUNTAIN RESOURCES, INC.)**  
**AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| <u>ASSETS</u>   | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|---|---|------------------------------|
| <b>CURRENT ASSETS</b>   |   |                              |
| Cash and cash equivalents   | \$ 210,002                                | \$ 1,149,140                 |
| Restricted cash   | 3,560,138                                 | 1,367,222                    |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$3,456 and \$3,701 as of March 31,<br>2008 and December 31, 2007, respectively | 10,299,845                                | 11,401,367                   |
| Inventories   | 4,198,644                                 | 3,293,529                    |
| Notes receivable, net of discount of \$91,326 as of<br>March 31, 2008   | 1,857,266                                 | 47,853                       |
| Other receivables   | 85,138                                    | 416,454                      |
| Deposit for acquisition   | 12,270,859                                | 12,270,859                   |
| Prepayments and prepaid expenses  | -   | 17,774                       |
| Due from employees  | 35,087                                    | 9,932                        |
| Discontinued operation  | 13,544,938                                | 14,158,890                   |
| <b>Total Current Assets</b>   | <b>46,061,917</b>                         | <b>44,133,020</b>            |
| <b>LONG-TERM ASSETS</b>   |   |                              |
| Plant and equipment, net  | 10,499,108                                | 10,427,176                   |
| Land use rights, net  | 382,800                                   | 385,539                      |
| Construction in progress  | 1,376,802                                 | 1,321,832                    |
| Discontinued operation  | 494,744                                   | 506,526                      |
| Deferred taxes  | 445,801                                   | 405,006                      |
| <b>Total Long-Term Assets</b>   | <b>13,199,255</b>                         | <b>13,046,079</b>            |
| <b>TOTAL ASSETS</b>   | <b>\$ 59,261,172</b>                      | <b>\$ 57,179,099</b>         |

See notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES, CORP.**  
**(FORMERLY STONE MOUNTAIN RESOURCES, INC.)**  
**AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|  | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|--|---|------------------------------|
| <b>CURRENT LIABILITIES</b>   |   |                              |
| Accounts payable   | \$ 6,492,357                              | \$ 6,333,057                 |
| Other payables and accrued expenses  | 351,352                                   | 378,675                      |
| Short-term bank loans  | 21,594,781                                | 20,869,862                   |
| Customer deposits  | 271,407                                   | 483,320                      |
| Notes payable  | 2,250,007                                 | 1,476,600                    |
| Due to employees   | 57,895                                    | 310                          |
| Due to related party   | 90,709                                    | -                            |
| Discontinued operation   | 13,655,346                                | 14,296,572                   |
| <b>Total Current Liabilities</b>   | <b>44,763,854</b>                         | <b>43,838,396</b>            |
| <b>LONG-TERM LIABILITIES</b>   |   |                              |
| Discontinued operation   | 2,651                                     | 2,651                        |
| Deferred taxes   | 296,511                                   | 296,511                      |
| <b>Total Long-Term Liabilities</b>   | <b>299,162</b>                            | <b>299,162</b>               |
| <b>TOTAL LIABILITIES</b>   | <b>45,063,016</b>                         | <b>44,137,558</b>            |
| <b>CONTINGENCIES</b>   |   |                              |
| <b>SHAREHOLDERS' EQUITY</b>  |   |                              |
| Common stock, \$0.001 par value; 100,000,000<br>shares authorized; 19,961,000 and 19,961,000 shares<br>issued and outstanding at March 31, 2008 and<br>December 31, 2007, respectively | 19,961                                    | 19,961                       |
| Additional paid-in capital   | 7,138,105                                 | 7,138,105                    |
| Retained earnings (the restricted portion is \$523,083<br>at March 31, 2008)   | 6,235,295                                 | 5,125,120                    |
| Accumulated other comprehensive income   | 804,795                                   | 758,355                      |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>  | <b>14,198,156</b>                         | <b>13,041,541</b>            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS'<br/>EQUITY</b>  | <b>\$ 59,261,172</b>                      | <b>\$ 57,179,099</b>         |

See notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES, CORP.**  
**(FORMERLY STONE MOUNTAIN RESOURCES, INC.)**  
**AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

|  | <b>Three Months<br/>Ended<br/>March 31, 2008</b> | <b>Three Months<br/>Ended<br/>March 31, 2007</b> |
|--|--|--|
| <b>REVENUES, NET</b>   | \$ 9,487,285                                     | \$ 5,376,977                                     |
| <b>COST OF GOODS SOLD</b>  | (7,305,277)                                      | (4,403,741)                                      |
| <b>GROSS PROFIT</b>  | 2,182,008  | 973,236  |
| General and administrative                                       | 279,120  | 141,594  |
| Selling and marketing  | 215,776  | 80,761   |
| Research and development   | 46,610   | 11,978   |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                         | 1,640,502  | 738,903  |
| Interest expense, net  | (615,540)  | (134,632)  |
| Government grants  | 23,381   | -  |
| Forfeiture of customer deposits                                  | -  | 265,789  |
| Other income, net  | 21,711   | 218  |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE<br/>INCOME TAXES</b> | 1,070,054  | 870,278  |
| <b>INCOME TAX BENEFIT</b>  | 39,965   | -  |
| <b>NET INCOME FROM CONTINUING OPERATIONS</b>                     | 1,110,019  | 870,278  |
| <b>DISCONTINUED OPERATION</b>                                    |  |  |
| Income from discontinued operation                               | 157  | 70,840   |
| <b>GAIN FROM DISCONTINUED OPERATION</b>                          | 157  | 70,840   |
| <b>NET INCOME</b>  | 1,110,176  | 941,118  |
| <b>OTHER COMPREHENSIVE INCOME</b>                                |  |  |
| Foreign currency translation gain                                | 46,440   | 91,058   |

See notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES, CORP.**  
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**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

|  | <b>Three Months<br/>Ended March 31,<br/>2008</b> | <b>Three Months<br/>Ended March 31,<br/>2007</b> |
|--|--|--|
| <b>COMPREHENSIVE INCOME</b>                                      | \$ 1,156,616                                     | \$ 1,032,176                                     |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND<br/>DILUTED</b> | 19,961,000                                       | 12,000,000                                       |
| <b>NET INCOME PER COMMON SHARE, BASIC AND DILUTED</b>            | \$ 0.06  | \$ 0.09  |

See notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES, CORP.**  
**(FORMERLY STONE MOUNTAIN RESOURCES, INC.)**  
**AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

|   | <b>Three Months Ended March 31,</b> |              |
|---|-------------------------------------|--------------|
|   | <b>2008</b>                         | <b>2007</b>  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                     |              |
| Net income  | \$ 1,110,176                        | \$ 941,118   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |              |
| Depreciation and amortization   | 362,750                             | 241,791      |
| Deferred taxes  | (40,795)                            | -            |
| Forfeiture of customer deposits   | -                                   | (265,789)    |
| <b>Changes in operating assets and liabilities:</b>                               |                                     |              |
| <b>(Increase) Decrease In:</b>  |                                     |              |
| Accounts receivable   | 1,101,521                           | (955,355)    |
| Inventories   | (905,114)                           | 699,127      |
| Other receivables   | 331,315                             | (28,332)     |
| Due to employees  | 32,431                              | -            |
| Prepayments and prepaid expenses  | 17,774                              | 96,199       |
| Discontinued operation  | (1,166,257)                         | 34,333       |
| <b>Increase (Decrease) In:</b>  |                                     |              |
| Accounts payable  | 159,300                             | (561,204)    |
| Other payables and accrued liabilities  | (27,323)                            | 53,219       |
| Discontinued operation  | 1,571,810                           | 11,433,523   |
| Customer deposits   | (211,914)                           | 1,035,946    |
| Net cash provided by operating activities   | 2,335,674                           | 12,724,576   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                     |              |
| Purchases of plant and equipment  | (611,471)                           | (181,249)    |
| Purchases of construction in progress   | (55,351)                            | (160,234)    |
| Deposit for acquisition   | -                                   | 646,479      |
| Due from employees  | -                                   | 171,608      |
| Issuances of notes receivable   | (1,859,256)                         | (4,902,596)  |
| Repayments of notes receivable  | 49,842                              | 347,571      |
| Discontinued operation  | 11,782                              | 17,465       |
| Net cash used in investing activities   | (2,464,454)                         | (4,060,956)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                     |              |
| Restricted cash   | (2,192,916)                         | -            |
| Discontinued operation  | (432,827)                           | (11,562,911) |



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|  |             |             |
|--|-------------|-------------|
| Proceeds from short term bank loans      | 9,776,805   | 5,581,834   |
| Repayment of short term bank loans       | (9,051,887) | (2,920,005) |
| Proceeds from notes payable              | 1,485,435   | 440,036     |
| Repayment of notes payable               | (712,027)   | (13,621)    |
| Repayment of advances to related parties | 90,709      | 17,288      |
| Net cash used in financing activities    | (1,036,708) | (8,457,379) |

See notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES, CORP.**  
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**AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

|   | <b>Three Months Ended March 31,</b> |                   |
|---|-------------------------------------|-------------------|
|   | <b>2008</b>                         | <b>2007</b>       |
| <b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b> | (1,165,488)                         | 206,241           |
| Effect of exchange rate changes on cash                 | 226,350                             | 4,936             |
| Cash and cash equivalents at beginning of period        | 1,149,140                           | 365,567           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>       | <b>\$ 210,002</b>                   | <b>\$ 576,744</b> |
| <b>SUPPLEMENTARY CASH FLOW INFORMATION</b>              |                                     |                   |
| Income taxes paid                                       | \$ -                                | \$ 226,507        |
| Interest paid   | \$ 439,961                          | \$ 2,967          |

**SUPPLEMENTAL NON-CASH DISCLOSURES:**

1. During the three months ended March 31, 2008 and 2007, \$380 and \$11,946 were transferred from construction in progress to plant and equipment, respectively.
2. Customer deposits of \$0 and \$265,789 were forfeited in the three months ended March 31, 2008 and 2007, respectively.

See notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES, CORP.**  
**(FORMERLY STONE MOUNTAIN RESOURCES, INC.)**  
**AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

**NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES**

Kandi Technologies, Corp. (formerly Stone Mountain Resources, Inc.) (the "Company") was incorporated under the laws of the State of Delaware on March 31, 2004. On June 29, 2007, Stone Mountain Resources, Inc. changed its name to Kandi Technologies, Corp.

On June 29, 2007, pursuant to a share exchange agreement between Stone Mountain Resources, Inc. ("Stone Mountain"), Continental Development Limited, ("Continental") and Excelvantage (Continental's sole shareholder), Stone Mountain issued 12,000,000 shares of its common stock to Excelvantage, in exchange for 100% of the common stock of Continental. As a result of the share exchange, Continental became a wholly-owned subsidiary of Stone Mountain. The Company conducts its operations through its wholly owned subsidiary, Zhejiang Kandi Vehicles Co. Ltd., a People's Republic of China ("PRC") company.

The exchange transaction was accounted for as a reverse acquisition in accordance with Statements of Financial Accounting Standards ("SFAS") No. 14 "Business Combinations." Accordingly, the consolidated statements of income include the results of operations of Kandi Technologies, Inc. from the acquisition date through March 31, 2008.

The Company's primary operations is comprised of designing, developing, manufacturing, and commercializing of all-terrain vehicles, go-karts, and specialized automobile related products for the People's Republic of China ("PRC") and global export markets. Sales are made to dealers in the United States, Europe and Australia.

**NOTE 2 - BASIS OF PRESENTATION**

The unaudited condensed consolidated financial statements as of March 31, 2008 and for the three months ended March 31, 2008 and 2007 of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the requirements for reporting on Rule 8-03 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. The condensed consolidated balance sheet information as of December 31, 2007 was derived from the audited consolidated financial statements included in the Company's Annual Report Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with that report.

**NOTE 3 - PRINCIPLES CONSOLIDATION**

The consolidated financial statements include the accounts of Kandi Technologies Corp. and the following subsidiaries:

- (i) Continental Development Ltd. (100% subsidiary of the Company)
- (ii) Zhejiang Kandi Vehicles Co. Ltd. ("Zhejiang Kandi") (100% subsidiary of Continental)

(iii) Zhejiang Yongkong Import and Export Co. Ltd. (“Dingji”) (100% subsidiary of Zhejiang Kandi)

**KANDI TECHNOLOGIES, CORP.**  
**(FORMERLY STONE MOUNTAIN RESOURCES, INC.)**  
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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
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Inter-company accounts and transactions have been eliminated in consolidation.

**NOTE 4 - USE OF ESTIMATES**

The preparation of the unaudited condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

Management makes these estimates using the best information available at the time the estimates are made. Actual results could differ materially from those estimates.

**NOTE 5 - CONCENTRATIONS**

The Company has major customers who accounted for the following percentage of total sales and accounts receivable in 2008 and 2007:

| Major Customers | Sales                                     |   | Accounts Receivable |                   |
|-----------------|---|---|---------------------|-------------------|
|                 | For the Three Months Ended March 31, 2008 | For the Three Months Ended March 31, 2007 | March 31, 2008      | December 31, 2007 |
| Company A       | 31%                                       | 27%                                       | 26%                 | 40%               |
| Company B       | 23%                                       | 22%                                       | 20%                 | 19%               |
| Company C       | 13%                                       | 19%                                       | 12%                 | 11%               |
| Company D       | 12%                                       | 15%                                       | 12%                 | 8%                |
| Company E       | 6%  | -   | 5%                  | 7%                |

**KANDI TECHNOLOGIES, CORP.**  
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**NOTE 5 - CONCENTRATION (CONTINUED)**

The Company has major suppliers who accounted for the following percentage of total purchases and accounts payable in 2008 and 2007:

| Major Suppliers | Purchases                                 |   | Accounts Payable |                   |
|-----------------|---|---|------------------|-------------------|
|                 | For the Three Months Ended March 31, 2008 | For the Three Months Ended March 31, 2007 | March 31, 2008   | December 31, 2007 |
| Company F       | 7%  | 35%                                       | 7%               | 7%                |
| Company G       | 8%  | 9%  | 5%               | 6%                |
| Company H       | 4%  | 16%                                       | 4%               | 5%                |
| Company I       | 4%  | 8%  | 4%               | 5%                |
| Company J       | 4%  | -   | 4%               | 4%                |

**NOTE 6 - FOREIGN CURRENCY TRANSLATION**

The accompanying condensed consolidated financial statements are presented in United States dollars. The functional currency of the Company is the Renminbi (RMB). The condensed consolidated financial statements are translated into United States dollars from RMB at period end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. Capital accounts are translated into United States dollars from RMB at their historical exchange rates when the capital transactions occurred.

|   | March 31, 2008 | December 31, 2007 | March 31, 2007 |
|---|----------------|-------------------|----------------|
| Period end RMB : US\$ exchange rate     | 7.0222         | 7.3141            | 7.7342         |
| Average period RMB : US\$ exchange rate | 7.1682         | 7.5614            | 7.7715         |

**NOTE 7 - EARNINGS PER SHARE**

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There were no potentially dilutive securities for the three month ended March 31, 2008 and 2007.

**KANDI TECHNOLOGIES, CORP.**  
**(FORMERLY STONE MOUNTAIN RESOURCES, INC.)**  
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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

**NOTE 8 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, notes receivable, amounts due from related parties, prepayments and prepaid expenses, receivables due from employees, accounts payable due to employees, other payables and accrued liabilities, notes payable, short-term bank loans and customer deposits. Management has estimated that the carrying amount approximates fair value due to their short-term nature.

**NOTE 9 - NEW ACCOUNTING PRONOUNCEMENTS**

In September 2006, the Financial Accounting Standard Board ("FASB") issued SFAS No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007 and to interim periods within those fiscal years. The adoption of SFAS No. 157 did not have an impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations, and SFAS No.160, Non-controlling Interests in Consolidated Financial Statements. SFAS No. 141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquire at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No.160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statement. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No.141 (R) and SFAS No.160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We have not yet determined the effect on our consolidated financial statements, if any, upon adoption of SFAS No.141 (R) or SFAS No. 160. We are aware that our accounting for minority interest will change and we are considering those effects now but believe the effects will only be a reclassification of minority interest from mezzanine equity to our stockholder's equity section in the balance sheet, in any case we do not believe the implementation of SFAS 160 will be material to our financial position, SFAS 141(R) will significantly affect the accounting for future business combinations and we will determine the accounting as new combinations are determined.

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**NOTE 9 - NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

In February 2007, the FASB issued SFAS No. 159, The Fair Value for Financial Assets and Financial Liabilities. This Statement permits entities to choose to measure financial assets and liabilities, with certain exceptions, at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The adoption of SFAS No. 159 did not have an impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. This Statement establishes accounting and reporting standards that require the ownership interests in subsidiaries' non-parent owners be clearly presented in the equity section of the balance sheet; requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; requires that when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value and the gain or loss on the deconsolidation of the subsidiary be measured using the fair value of any noncontrolling equity; requires that entities provide disclosures that clearly identify the interests of the parent and the interests of the noncontrolling owners. This Statement is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008. The Company has not determined the impact, if any, SFAS No. 160 will have on its financial statements.

**NOTE 10 - INVENTORIES**

Inventories consist of the following:

|                   | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|-------------------|---|------------------------------|
| Raw materials     | \$ 814,327                                | \$ 1,534,448                 |
| Work-in-progress  | 3,127,152                                 | 1,402,073                    |
| Finished goods    | 257,165                                   | 357,008                      |
| Total inventories | \$ 4,198,644                              | \$ 3,293,529                 |



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

**NOTE 11 - NOTES RECEIVABLE**

Notes receivable consist of the following:

|   | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|---|---|------------------------------|
| Notes receivable from unrelated companies:                |   |                              |
| Due June 27, 2008   | \$ -                                      | \$ 47,853                    |
| Due March 2, 2009   | 640,673                                   | -                            |
| Due January 1, 2009                                       | 184,842                                   | -                            |
| Due March 31, 2008 (subsequently settled on its due date) | 633,825                                   | -                            |
| Due March 31, 2008 (subsequently settled on its due date) | 489,252                                   | -                            |
| Subtotal  | 1,948,592                                 | 47,853                       |
| Notes receivable-discount                                 | (91,326)                                  | -                            |
| Notes receivable net                                      | \$ 1,857,266                              | \$ 47,853                    |

In 2008, interest-free notes of \$640,673, \$184,842 and \$633,825 were provided to unrelated companies for their assistance in developing distribution channels and new markets for the Company.

The Company imputed the interest for these notes receivable for \$91,326, since they consider these notes receivable may be extended when due.

Notes receivable of \$489,252 were provided to an unrelated company, which bears interest at 7.2% per annum. The interest income on notes receivable for the three months ended March 31, 2008 was \$6,379, which was recognized in the accompanying condensed consolidated statements of income as interest expense.

**NOTE 12 - LAND USE RIGHTS**

Land use rights consist of the following:

|                                | <b>March 31, 2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|--------------------------------|---------------------------------------|------------------------------|
| Cost of land use rights        | \$ 460,943                            | \$ 460,943                   |
| Less: accumulated amortization | (78,143)                              | (75,404)                     |
| Land use rights, net           | \$ 382,800                            | \$ 385,539                   |

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Amortization expense for the three months ended March 31, 2008 and 2007 was \$2,739 and \$2,597, respectively.

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

|                    |    |         |
|--------------------|----|---------|
| 2008 with one year | \$ | 8,388   |
| 2009               |    | 11,183  |
| 2010               |    | 11,183  |
| 2011               |    | 11,183  |
| 2012               |    | 11,183  |
| Thereafter         |    | 329,680 |
| Total              | \$ | 382,800 |

**NOTE 13 - PLANT AND EQUIPMENT**

Plant and equipment consist of the following:

|                                | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|--------------------------------|---|------------------------------|
| At cost:                       |   |                              |
| Buildings                      | \$ 4,074,937                              | \$ 3,911,944                 |
| Machinery and equipment        | 8,930,520                                 | 8,572,451                    |
| Office equipment               | 101,617                                   | 93,840                       |
| Transportation                 | 265,480                                   | 254,885                      |
| Patterns                       | 1,814,542                                 | 1,742,125                    |
|                                | 15,187,096                                | 14,575,245                   |
| Less: Accumulated depreciation |   |                              |
| Buildings                      | (480,618)                                 | (428,834)                    |
| Machinery and equipment        | (3,891,058)                               | (3,520,084)                  |
| Office equipment               | (71,989)                                  | (64,427)                     |
| Transportation                 | (58,857)                                  | (43,765)                     |
| Patterns                       | (185,466)                                 | (90,959)                     |
|                                | (4,687,988)                               | (4,148,069)                  |
| Plant and equipment, net       | \$ 10,499,108                             | \$ 10,427,176                |

The net book value of plant and equipment are pledged for certain bank loans at March 31, 2008 and December 31, 2007 is \$1,795,258 and \$1,652,616, respectively. Also see note 14.

Depreciation expense for three months ended March 31, 2008 and 2007 was \$360,011 and \$270,177, respectively.

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**NOTE 14 - SHORT TERM BANK LOANS**

SHORT-TERM BANK LOANS CONSIST OF THE FOLLOWING:

|  | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|--|---|------------------------------|
| <b>Loans from ICBC-Exploration Zone Branch</b>   |   |                              |
| Monthly interest only payments at 7.88% per annum, due April 10, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13. (subsequently repaid on its due date) | \$ 712,028                                | \$ 683,611                   |
| Monthly interest only payments at 7.88% per annum, due June 5, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13.   | 712,028                                   | 683,611                      |
| Monthly interest only payments at 8.75% per annum, due September 5, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13.                                    | 427,216                                   | 410,167                      |
| Monthly interest only payments at 8.75% per annum, due September 5, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13.                                    | 384,495                                   | 369,150                      |
| Monthly interest only payments at 8.75% per annum, due October 10, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13.                                     | 427,216                                   | 410,167                      |
| Monthly interest only payments at 8.75% per annum, due October 16, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13.                                     | 541,141                                   | 519,544                      |
| Monthly interest only payments at 8.75% per annum, due October 23, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13.                                     | 498,419                                   | 478,528                      |
| Monthly interest only payments at 8.75% per annum, due November 24, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13.                                    | 569,623                                   | 546,889                      |
| Monthly interest only payments at 8.28% per annum, due September 17, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13.                                   | 640,825                                   | -                            |



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**NOTE 14 - SHORT TERM BANK LOANS (CONTINUED)**

|   | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|---|---|------------------------------|
| <b>Loans from Commercial Bank-Jiangnan Branch</b>   |   |                              |
| Monthly interest only payments at 7.58 % per annum, due January 10, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13. (subsequently repaid on its due date) | -   | 2,734,444                    |
| Monthly interest only payments at 7.67 % per annum, due May 10, 2008, guaranteed by the assets owned by the Company. Also see Notes 12 and 13. (subsequently repaid on its due date)  | 1,424,055                                 | 1,367,222                    |
| Monthly interest only payments at 8.22% per annum, due January 10, 2009 secured by the assets owned by the Company. Also see Notes 12 and 13.   | 2,848,110                                 | -                            |
| <b>Loans from ICBC-Jinhua Branch</b>  |   |                              |
| Monthly interest only payments at 6.88% per annum, due January 18, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13. (subsequently repaid on its due date)  | -   | 189,753                      |
| Monthly interest only payments at 6.58% per annum, due February 1, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13. (subsequently repaid on its due date)  | -   | 948,766                      |
| Monthly interest only payments at 6.88% per annum, due March 3, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13. (subsequently repaid on its due date)     | -   | 858,883                      |
| Monthly interest only payments at 7.88% per annum, due March 21, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13. (subsequently repaid on its due date)    | -   | 1,098,571                    |
| Monthly interest only payments at 7.88% per annum, due April 16, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13. (subsequently repaid on its due date)    | 1,030,000                                 | -                            |
| Monthly interest only payments at 7.88% per annum, due May 21, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13.  | 700,000                                   | -                            |



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**NOTE 14 - SHORT TERM BANK LOANS (CONTINUED)**

|   | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|---|---|------------------------------|
| <b>Loans from Huaxia Bank</b>   |   |                              |
| Monthly interest only payments at 9.86% per annum, due December 24, 2008. Guaranteed by Yongkang Tangxian Colour Metal Die-casting Company.   | 2,848,110                                 | 2,734,444                    |
| Monthly interest only payments at 7.84% per annum, due October 1, 2008. And secured by the assets owned by the Company. Guaranteed by Nanlong Group Co.,Ltd & Zhejiang Mengdeli Electric Company. Also see Notes 12 and 13.   | 2,848,110                                 | -                            |
| <b>Loans from China Everybright Bank</b>  |   |                              |
| Monthly interest only payments at 8.22% per annum, due August 9, 2008. And secured by the assets owned by the Company. Guaranteed by Nanlong Group Co.,Ltd & Zhejiang Mengdeli Electric Company. Also see Notes 12 and 13.    | 4,271,377                                 | 4,101,668                    |
| Monthly interest only payments at 8.96% per annum, due February 18, 2009. And secured by the assets owned by the Company. Guaranteed by Nanlong Group Co.,Ltd & Zhejiang Mengdeli Electric Company. Also see Notes 12 and 13. | 712,028                                   | -                            |
| <b>Loans from Shanghai Pudong Development Bank</b>  |   |                              |
| Monthly interest only payments at 6.33 % per annum, due February 14, 2008, secured by the assets owned by the Company. Also see Notes 12 and 13. (subsequently repaid on its due date)  | -   | 2,734,444                    |
| <b>Total</b>  | <b>\$ 21,594,781</b>                      | <b>\$ 20,869,862</b>         |

Interest expense for short-term loans during three months ended March 31, 2008 and 2007 was \$523,785 and \$119,066, respectively.

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**NOTE 15 - NOTES PAYABLE**

NOTES PAYABLE CONSIST OF THE FOLLOWING:

|  | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|--|---|------------------------------|
| Notes payable to unrelated companies:                    |   |                              |
| Due April 17, 2008 (subsequently repaid on its due date) | \$ 712,028                                | \$ 683,611                   |
| Due September 19, 2008                                   | 1,424,055                                 | 683,611                      |
| Due November 18, 2008                                    | 113,924                                   | 109,378                      |
| Total  | \$ 2,250,007                              | \$ 1,476,600                 |

All the bank acceptance notes are subject to bank charges of 0.05% of the principal as commission on each loan transaction. Bank charges for notes payable were \$1,125 and \$7,734 in 2008 and 2007, respectively.

Restricted cash of \$3,560,138 and \$1,367,222 is held as collateral for the following notes payable at March 31, 2008 and December 31, 2007, respectively:

|  | <b>March 31,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|--|---|------------------------------|
| Due April 17, 2008 (subsequently repaid on its due date) | 712,028                                   | 683,611                      |
| Due September 19, 2008                                   | 1,424,055                                 | 683,611                      |
| Due November 18, 2008                                    | 1,424,055                                 | -                            |
| Total  | \$ 3,560,138                              | \$ 1,367,222                 |

**NOTE 16 - INCOME TAXES**

Corporation Income Tax ("CIT")

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), an interpretation of FASB statement No. 109, Accounting for 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 FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of March 31, 2008, the Company does not have a liability for



unrecognized tax benefits. The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to U.S. federal or state income tax examinations by tax authorities for years after 2005. During the periods open to examination, the Company has net operating loss and tax credit carry forwards for U.S. federal and state tax purposes that have attributes from close March 31, 2008 the Company was not aware of any pending income tax examinations by China tax authorities. The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of March 31, 2008, the Company has no accrued interest or penalties related to uncertain tax positions.

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On March 16, 2007, the National People's Congress of China approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT law"), which is effective from January 1, 2008. In accordance with the relevant tax laws and regulations of PRC, the applicable corporate income tax rate of the Company is 33%. However, according to certain rules in the tax laws, from the time that the Company has its first profitable tax year, a foreign-invested company is exempt from corporate income tax for the following two years of operations and is then entitled to a 50% tax reduction for the succeeding three years. The Company's first profitable year for income tax purposes as a foreign-invested company was 2007. Dingji is a subsidiary of the Company and its applicable corporate income tax rate is 33%.

Under the new CIT law, the corporate income tax rate applicable to the Company starting from January 1, 2008 is 25%. The Company believes some of the tax concession granted to eligible companies prior to the new CIT law will be grand fathered. Income tax (benefit) expense for the three months ended March 31, 2008 and 2007 are summarized as follows:

|                              | <b>For the Three Months Ended</b> |             |
|------------------------------|-----------------------------------|-------------|
|                              | <b>March 31,</b>                  |             |
|                              | <b>(Unaudited)</b>                |             |
|                              | <b>2008</b>                       | <b>2007</b> |
| Current:                     |                                   |             |
| Provision for CIT            | \$ -                              | \$ 39,876   |
| Deferred:                    |                                   |             |
| Provision for CIT            | (39,965)                          | (4,984)     |
| Income tax (benefit) expense | \$ (39,965)                       | \$ 34,892   |

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**NOTE 16 - INCOME TAXES (CONTINUED)**

The Company's income tax (benefit) expense differs from the "expected" tax (benefit)/expense for the three months ended March 31, 2008 and 2007 (computed by applying the CIT rate of 25% to income before income taxes) as follows:

|                              | <b>For the Three Months Ended</b> |             |
|------------------------------|-----------------------------------|-------------|
|                              | <b>March 31,</b>                  |             |
|                              | <b>(Unaudited)</b>                |             |
|                              | <b>2008</b>                       | <b>2007</b> |
| Computed "expected" expense  | \$ 267,514                        | \$ 287,129  |
| Permanent difference         | (58,291)                          | 45,503      |
| Tax exemption                | (249,188)                         | (332,695)   |
| Income tax (benefit) expense | \$ (39,965)                       | \$ -        |

The tax effects of temporary differences that give rise to the Company's net deferred tax assets and liabilities as of March 31, 2008 and 2007 are as follows:

|   | <b>March 31,</b>   | <b>December 31,</b> |
|---|--------------------|---------------------|
|   | <b>2008</b>        | <b>2007</b>         |
|   | <b>(Unaudited)</b> |                     |
| Deferred tax assets:                        |                    |                     |
| Non-current portion:                        |                    |                     |
| Depreciation                                | 735,306            | 694,512             |
| Valuation allowance                         | (289,505)          | (289,506)           |
| Subtotal                                    | 445,801            | 405,006             |
| Total deferred tax assets                   | 445,801            | 405,006             |
| Deferred tax liabilities:                   |                    |                     |
| Non-current portion:                        |                    |                     |
| Accumulated other comprehensive (gain) loss | (296,511)          | (296,511)           |
| Subtotal                                    | (296,511)          | (296,511)           |
| Total deferred tax liabilities              | (296,511)          | (296,511)           |
| Net deferred tax assets (liabilities)       | \$ 149,290         | \$ 108,495          |

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**NOTE 16 - INCOME TAXES (CONTINUED)**

Value Added Tax ("VAT")

Enterprises or individuals, who sell commodities, engage in repair and maintenance or import or export goods in the PRC are subject to a value added tax in accordance with Chinese Laws. The VAT standard rate is 17% of the gross sale price. A credit is available whereby VAT paid on the purchases of semi-finished products or raw materials used in the production of the Company's finished products can be used to offset the VAT due on the sales of the finished products.

On January 1, 2002, the export policy of VAT "Exemption, Credit and Refund" began to apply to all exports by manufacture-based enterprises. In accordance with this policy, exported goods are exempted from output VAT and the input VAT charged for purchases of the raw materials, components and power consumed for the production of the exported goods may be refunded. Beginning July 1, 2007, the refund rates of vehicle related products applicable to Kandi and Dingji were changed from 17% to 9%.

The refundable VAT of \$42,059 and \$542,874 at March 31, 2008 and December 31, 2007, respectively, are included in other receivables in the accompanying consolidated balance sheets

**NOTE 17 - CONTINGENCIES**

(a) In 2006, the Company brought a legal action against Weifang Rongda Automobile Trading Co., Ltd. for returned goods that were damaged. As the plaintiff, the Company has claimed for compensation. According to the judge's report from the local court in Jinhua, PRC, on December 8, 2006, the Company prevailed in the lawsuit and Weifang Rongda Automobile Trading Co., Ltd. was required to pay approximately \$26,408 as compensation to the Company. However, the defendant appealed the ruling to a higher level court and the Company has not received the compensation as of April 30, 2008. Considering the uncertainties of the legal proceeding, the Company did not record a contingent gain for this at March 31, 2008.

(b) In 2006, the Company brought a legal action against Zhejiang Yuegong steel Structure Co. and Zhejiang Jinhua No.1 Construction Co., Ltd. for their delay in the construction in Jinhua Industrial district. As the plaintiff, the Company claimed for compensation. According to the judge's report from the local court in Jinhua, PRC, on December 5, 2006, the Company prevailed in the lawsuit and Zhejiang Yuegong steel Structure Co. and Zhejiang Jinhua No.1 Construction Co., Ltd. will be required to pay \$186,331 as compensation to the Company. However, the two defendants appealed the ruling to a higher level court and the Company has not received the compensation as of April 30, 2008. Considering the uncertainties of the legal proceeding, the Company did not record a contingent gain for this at March 31, 2008

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**NOTE 18 - DEPOSIT FOR ACQUISITION**

In November 2007, the Company signed a letter of intent with the shareholders of Kandi Special Vehicles Co., Ltd., by which the Company would acquire 100% of Kandi Special Vehicles Co., Ltd. The Company paid \$12,270,859 as a deposit as of March 31, 2008. The total consideration for the acquisition is \$12,314,988 and the acquisition was completed in April 18, 2008. There is no material relationship between the Company and Kandi Special Vehicles Co., Ltd.

The following unaudited pro forma combined condensed statement of income for the three months ended March 31, 2008 was prepared as if the acquisition had occurred on January 1, 2008. The pro forma information may not be indicative of the results that actually would have occurred if the acquisition had been in effect from and on the dates indicated or which may be obtained in the future.

|   | <b>Pro Forma Combined<br/>(Unaudited)</b> |
|---|---|
| <b>REVENUES</b>                                   | \$ 9,487,285                              |
| <b>GROSS PROFIT</b>                               | \$ 2,182,008                              |
| <b>INCOME FROM OPERATIONS</b>                     | \$ 1,640,502                              |
| <b>NET INCOME</b>                                 | \$ 1,110,176                              |
| <b>NET INCOME PER SHARE<br/>BASIC AND DILUTED</b> | \$ 0.06                                   |

**NOTE 19 - DISCONTINUED OPERATION**

On May 9, 2008, the Company executed a share transfer agreement for the sale of its subsidiary Zhejiang Yongkang Top Import & Export Co., Ltd. (“Dingji”). Pursuant to the share transfer agreement, the Company agreed to sell all of its interest in Dingji for \$712,027. There was no gain or loss that resulted from the sale. As a result of the share transfer agreement, Dingji is no longer a subsidiary of the Company. In accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the results of operations of Dingji are removed from the detail line items to the “discontinued operation” of the Company’s financial statements.

The income (loss) from discontinued operation was \$157 and \$70,840 for the three months ended March 31, 2008 and 2007, respectively.

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

This report contains forward-looking statements within the meaning of the federal securities laws that relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology, such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "intend," "potential" or "continue" or the negative of such terms or other comparable terminology, although not all forward-looking statements contain such terms.

In addition, these forward-looking statements include, but are not limited to, statements regarding implementing our business strategy; development and marketing of our products; our estimates of future revenue and profitability; our expectations regarding future expenses, including research and development, sales and marketing, manufacturing and general and administrative expenses; difficulty or inability to raise additional financing, if needed, on terms acceptable to us; our estimates regarding our capital requirements and our needs for additional financing; attracting and retaining customers and employees; sources of revenue and anticipated revenue; and competition in our market.

Forward-looking statements are only predictions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. All of our forward-looking information is subject to risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors and the timing of any of those risk factors described in the Company's Form 10-K for the year ended December 31, 2007 and those set forth from time to time in our filings with the Securities and Exchange Commission ("SEC"). These documents are available on the SEC's Electronic Data Gathering and Analysis Retrieval System at <http://www.sec.gov>.

**Results of Operations**

*Comparison of Three Months Ended March 31, 2008 and 2007.*

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The following table sets forth the amounts and percentage relationship to revenue of certain items in our condensed consolidated statements of income and comprehensive income:

|  | <b>For the<br/>Three<br/>Months<br/>Ended<br/>March 31,<br/>2008</b> | <b>% of<br/>Revenue</b> | <b>For the<br/>Three<br/>Months<br/>Ended<br/>March 31,<br/>2007</b> | <b>% of<br/>Revenue</b> | <b>Change in<br/>Amount</b> | <b>Change<br/>in %</b> |
|--|--|-------------------------|--|-------------------------|-----------------------------|------------------------|
| <b>REVENUES</b>  | \$ 9,487,285   | 100.0%                  | \$ 5,376,977   | 100.0%                  | \$ 4,110,308                | 76.4%                  |
| <b>COST OF GOODS SOLD</b>  | 7,305,277  | 77.0%                   | 4,403,741  | 81.9%                   | 2,901,536                   | 65.9%                  |
| <b>GROSS PROFIT</b>  | 2,182,008  | 23.0%                   | 973,236  | 18.1%                   | 1,208,772                   | 124.2%                 |
| Selling and Marketing  | 215,776  | 2.3%                    | 80,761   | 1.5%                    | 135,015                     | 167.2%                 |
| General and Administrative   | 279,120  | 2.9%                    | 141,594  | 2.6%                    | 137,526                     | 97.1%                  |
| Research and Development   | 46,610   | 0.5%                    | 11,978   | 0.2%                    | 34,632                      | 289.1%                 |
| <b>INCOME FROM<br/>CONTINUING<br/>OPERATIONS</b>                         | 1,640,502  | 17.3%                   | 738,903  | 13.7%                   | 901,599                     | 122.0%                 |
| Government Grants  | 23,381   | 0.2%                    | -  | 0.0%                    | 23,381                      | 100%                   |
| Interest Expense, Net  | (615,540)  | (6.5%)                  | (134,632)  | (2.5%)                  | (480,908)                   | 357.2%                 |
| Forfeiture of Customer<br>Deposits                                       | -  | 0.0%                    | 265,789  | 4.9%                    | (265,789)                   | (100.0%)               |
| Other Income, Net  | 21,711   | 0.2%                    | 218  | 0.0%                    | 21,493                      | 9,859.2%               |
| <b>INCOME FROM<br/>CONTINUING<br/>OPERATIONS BEFORE<br/>INCOME TAXES</b> | 1,070,054  | 11.3%                   | 870,278  | 16.2%                   | 199,776                     | 23.0%                  |
| <b>INCOME TAX BENEFIT</b>  | 39,965   | 0.4%                    | -  | 0.0%                    | 39,965                      | 100%                   |
| <b>NET INCOME FROM<br/>CONTINUING<br/>OPERATIONS</b>                     | 1,110,019  | 11.7%                   | 870,278  | 16.2%                   | 239,741                     | 27.5%                  |
| <b>INCOME FROM<br/>DISCONTINUED<br/>OPERATION</b>                        | 157  | 0.0%                    | 70,840   | 1.3%                    | (70,683)                    | (99.8%)                |
| <b>NET INCOME</b>  | \$ 1,110,176   | 11.7%                   | \$ 941,118   | 17.5%                   | \$ 169,058                  | 18.0%                  |

**Revenue** For the three months ended March 31, 2008, our revenues increased approximately 76% from \$5,376,977 to \$9,487,285 relative to the same period ended March 31, 2007. The biggest factor for the increase of our revenues was the increased sales of our go-karts.

**Cost of Sales** Cost of sales increased from \$4,403,741 for the three months ended March 31, 2007 to \$7,305,277, or approximately 66%, for the same period in 2008, reflecting the increase in production manufacturing associated with the manufacturing of the super-mini car during the quarter. However, in terms of cost of sales as a percentage of net revenues, our cost of sales for this quarter in 2008 was approximately 77% of net revenues as compared to approximately 82% of net revenues for the same quarter in 2007. The main reason for the improvement in cost of sales was due to tighter cost controls and discounts obtained in raw materials because of the increase in our purchasing power.

**Gross Profit** Gross profit increased approximately 124% from \$973,236 for the three months ended March 31, 2007 to \$2,182,008 for the three months ended March 31, 2008, and the gross margin was increased approximately 5% compared with the same period in 2007. This increase in gross profit was primarily due to the increased revenues and reduction in cost of sales. Moreover, the gross margin increased primarily due to the price increases we were able to implement on some of our products due to higher quality and larger engines.



**Selling and Marketing** For the three months ended March 31, 2008, selling and marketing expenses increased approximately 167% from \$80,761 to \$215,776 relative to the three months ended March 31, 2007. The increase was primarily due to the increase in the expansion of the sales department as a result of the sharp increase in sales revenue.

**General and Administrative** For the three months ended March 31, 2008, general and administrative expenses increased approximately 97% from \$141,594 to \$279,120 relative to the three months ended March 31, 2007. The increase was primarily due to an increase in the headcount of the administration department as the Company hired new employees in order to manage our expansion.

**Research and Development** For the three months ended March 31, 2008, research and development expenses increased approximately 289% from \$11,978 to \$46,610 relative to the three months ended March 31, 2007. The increase was primarily due to the continuing efforts of the Company in improvement of our existing products.

**Income Taxes** On March 16, 2007, the National People's Congress of the PRC adopted a new corporate income tax law in its fifth plenary session. The new corporate income tax law unifies the application scope, tax rate, tax deduction and preferential policy for both domestic and foreign-invested enterprises. The new corporate income tax law was effective on January 1, 2008. However, a foreign-invested company which registered with the PRC government before March 16, 2007 may still apply the former corporate income tax rules. Thus, the Company is exempt from corporate income tax for 2008 and then is entitled to a 50% tax reduction for 2009, 2010 and 2011. As a result, the Company had an income tax benefit of \$39,965 for the three months ended March 31, 2008, compared with \$0 for the same period in 2007.

**Income From Discontinued Operation** On May 9, 2008, we executed a share transfer agreement for the sale of our subsidiary Zhejiang Yongkang Top Import & Export Co., Ltd. ("Dingji"). Pursuant to the share transfer agreement, the Company agreed to sell all of its interest in Dingji for \$712,027. There was no gain or loss that resulted from the sale. The income (loss) from discontinued operation of Dingji was \$157 and \$70,840 for the three months ended March 31, 2008 and 2007, respectively.

**Net Income** Net income increased approximately 18% from \$941,118 for the three months ended March 31, 2008 to \$1,110,176 for the three months ended March 31, 2007. This increase in net income was due primarily to the increase in both our revenues and gross profits.

## **Liquidity and Capital Resources**

### **Cash Flows**

#### **Three Months ended March 31, 2008 and 2007**

Net cash flow provided by operating activities was \$2,124,901 for the three months ended March 31, 2008 as compared to \$12,724,576 in cash flow provided in operating activities in the same period of 2007. The decrease of net cash flow provided by operating activities was mainly due to the collection of outstanding loans and cash flow used in expanding manufacture capacity.

Net cash flow used in investing activities was \$2,464,454 for the three months ended March 31, 2008 as compared to \$4,060,956 in the same period of 2007. Cash flow used in investing activities in the three months ended March 31, 2008 was mainly for the issuance of notes receivable and the purchases of plant and equipment.

Net cash flow used in financing activities was \$1,036,708 for the three months ended March 31, 2008, as compared to \$8,457,379 in the same period of 2007. The decrease of cash flow used in financing activities was mainly due to the receipt of loans, the loans are used by the Company to expand our output.

### ***Working Capital***

Our working capital increased by \$1,003,439 to \$1,298,063 at March 31, 2008, as compared to \$294,624 at December 31, 2007. The increase in working capital at March 31, 2008 was mainly the result of the Company's expanded capacity in the first quarter of 2008.

The Company believes that its cash flow generated from operations will be sufficient to sustain operations for the next twelve months. Also, from time to time, the Company may require extra funding through financing activities and investments for expansion. Also, from time to time, the Company may identify new expansion opportunities for which our management may consider seeking external funding and financing. However, as of March 31, 2008, the Company did not have any plan for additional capital through external funding and financing.

### **Summary of Significant Accounting Policies**

#### *Earnings Per Share*

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There were no potentially dilutive securities for the three month ended March 31, 2008 and 2007.

#### *Fair Value of Financial Instruments*

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, notes receivable, due from related parties, prepayments and prepaid expenses, other receivables, due from employees, accounts payable, due to employees, other payables and accrued liabilities, notes payable, short-term bank loans, and customer deposits. Management has estimated that the carrying amount approximates fair value due to their short-term nature.

### **ACCOUNTING PRONOUNCEMENTS**

In September 2006, the Financial Accounting Standard Board ("FASB") issued SFAS No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007 and to interim periods within those fiscal years. The adoption of SFAS No. 157 did not have an impact on the Company's financial

statements.

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In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations, and SFAS No.160, Non-controlling Interests in Consolidated Financial Statements. SFAS No. 141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquire at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No.160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statement. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No.141 (R) and SFAS No.160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We have not yet determined the effect on our consolidated financial statements, if any, upon adoption of SFAS No.141 (R) or SFAS No. 160. We are aware that our accounting for minority interest will change and we are considering those effects now but believe the effects will only be a reclassification of minority interest from mezzanine equity to our stockholder's equity section in the balance sheet, in any case we do not believe the implementation of SFAS 160 will be material to our financial position, SFAS 141(R) will significantly affect the accounting for future business combinations and we will determine the accounting as new combinations are determined.

In February 2007, the FASB issued SFAS No. 159, The Fair Value for Financial Assets and Financial Liabilities. This Statement permits entities to choose to measure financial assets and liabilities, with certain exceptions, at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The adoption of SFAS No. 159 did not have an impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. This Statement establishes accounting and reporting standards that require the ownership interests in subsidiaries' non-parent owners be clearly presented in the equity section of the balance sheet; requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; requires that when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value and the gain or loss on the deconsolidation of the subsidiary be measured using the fair value of any noncontrolling equity; requires that entities provide disclosures that clearly identify the interests of the parent and the interests of the noncontrolling owners. This Statement is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008. The Company has not determined the impact, if any, SFAS No. 160 will have on its financial statements.

**Item 3. Controls and Procedures**

The Company maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by the Company in this Form 10-Q, and in other reports required to be filed under the Securities Exchange Act of 1934 (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms for such filings. Management of the Company, under the direction of the Company's Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15a(e) and 15d-15(e) under the Exchange Act) as of March 31, 2008. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with other key management of the Company, have determined that the disclosure controls and procedures were and are effective as designed to ensure that material information relating to the Company and its consolidated subsidiaries required to be disclosed by the Company by the Exchange Act, was recorded, processed, summarized and reported within the applicable time periods.

There were no changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls over financial reporting that occurred during the quarter ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Currently we are not aware of any litigation pending or threatened by or against the Company.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

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

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.

31.2 Certification pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.

32.1 Certifications of CEO and CFO Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002.

