Kandi Technologies Group, Inc.
Form 10-Q
November 10, 2014

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, 2014**

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 5, 2014, the registrant had issued and outstanding 46,274,855 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

ASSETS

	September 30, 2014 (Unaudited)	December 31, 2013
CURRENT ASSETS		
Cash and cash equivalents	$ 49,500,712	$ 12,762,369
Restricted cash	12,995,452	1,636
Accounts receivable	13,982,830	31,370,862
Inventories, net of provision for slow moving inventory of $350,328 and $352,734 as of September 30, 2014 and December 31, 2013, respectively	14,599,901	9,187,714
Notes receivable	6,061,184	13,794,094
Other receivables	448,152	556,904
Prepayments and prepaid expenses	412,122	505,513
Due from employees	43,792	34,272
Advances to suppliers	58,777,479	8,867,074
Amount due from JV Company, net	52,028,753	2,917,592
Deferred tax	-	13,706
Total Current Assets	208,850,377	80,011,736
LONG-TERM ASSETS		
Plant and equipment, net	26,134,626	29,333,516
Land use rights, net	15,740,126	14,453,191
Construction in progress	55,491	16,356
Deferred taxes	-	81,076
Investment in associated company	-	96,838
Investment in JV Company	82,544,376	79,331,930
Goodwill	322,591	322,591
Intangible assets	597,924	659,496
Total Long-Term Assets	125,395,134	124,294,994
TOTAL ASSETS	$ 334,245,511	$ 204,306,730

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS EQUITY

	September 30, 2014 (Unaudited)	December 31, 2013
CURRENT LIABILITIES		
Accounts payable	$ 55,568,073	$ 22,843,143
Other payables and accrued expenses	4,847,485	2,422,613
Short-term bank loans	22,417,154	34,020,281
Customer deposits	152,030	44,404
Notes payable	12,995,452	16,683,023
Income tax payable	1,317,504	1,362,828
Due to employees	433,033	10,297
Due to related party	-	-
Deferred taxes	426,767	-
Financial derivatives - liability	2,571,326	9,256,827
Total Current Liabilities	100,728,824	86,643,416
LONG-TERM LIABILITIES		
Deferred tax	1,299,882	1,009,477
Bond payable	12,995,452	13,084,724
Financial derivatives - liability	9,488,193	15,042,994
Total Long-Term Liabilities	23,783,527	29,137,195
TOTAL LIABILITIES	124,512,351	115,780,611
STOCKHOLDERS EQUITY		
Common stock, $0.001 par value; 100,000,000 shares authorized; 46,274,855 and 37,012,904 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	46,275	37,013
Additional paid-in capital	189,385,630	76,754,774
Retained earnings (the restricted portion is $3,807,551 and $3,807,551 at September 30, 2014 and December 31, 2013, respectively)	14,723,713	4,119,086
Accumulated other comprehensive income	5,577,542	7,615,246
TOTAL STOCKHOLDERS EQUITY	209,733,160	88,526,119
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 334,245,511	$ 204,306,730

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)

	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2014	2013	2014	2013
REVENUE, NET	$ 44,206,992	$ 17,145,512	$ 117,338,351	$ 43,975,463
COST OF GOODS SOLD	(38,698,452)	(13,032,352)	(99,748,314)	(33,673,048)
GROSS PROFIT	5,508,540	4,113,160	17,590,037	10,302,415
OPERATING EXPENSES:				
Research and development	(391,097)	(500,864)	(2,535,027)	(1,863,020)
Selling expenses	(432,365)	(102,380)	(939,516)	(263,414)
General and administrative	(2,076,749)	(2,893,935)	(11,720,693)	(4,826,622)
Total operating expenses	(2,900,211)	(3,497,179)	(15,195,236)	(6,953,056)
INCOME (LOSS) FROM CONTINUING OPERATIONS	2,608,329	615,981	2,394,801	3,349,359
OTHER INCOME (EXPENSE):				
Interest (expense) income, net	(711,119)	(1,184,282)	(1,397,294)	(2,472,377)
Change in fair value of financial instruments	10,187,277	(6,864,624)	6,814,675	(6,956,963)
Government grants	63,584	11,077	217,284	60,884
Share of gain (loss) in associated companies	38,702	(15,787)	(54,290)	(45,327)
Share of (loss) profit after tax of JV	2,038,388	(109,641)	3,757,218	(120,017)
Other income, net	21,814	40,647	141,641	217,160
Total other income (expense), net	11,638,646	(8,122,610)	9,479,234	(9,316,640)
INCOME (LOSS) FROM CONTINUING OPERATION BEFORE PROVISION FOR INCOME TAXES	14,246,975	(7,506,629)	11,874,035	(5,967,281)
PROVISION FOR INCOME TAXES	(713,273)	(257,222)	(1,269,408)	(502,123)
INCOME (LOSS) FROM CONTINUING OPERATION	13,533,702	(7,763,851)	10,604,627	(6,469,404)
DISCONTINUED OPERATION				
Loss from discontinued operation	-	(350,320)	-	(452,194)
Gain from disposition of discontinued operation	-	425,129	-	425,129
NET INCOME(LOSS) FROM DISCONTINUED OPERATION	-	74,809	-	(27,065)
NET INCOME (LOSS)	13,533,702	(7,689,042)	10,604,627	(6,496,469)

OTHER COMPREHENSIVE INCOME				
Foreign currency translation	(109,112)	322,798	(2,037,704)	1,632,143
COMPREHENSIVE INCOME (LOSS)	$ 13,424,590	$ (7,366,244)	$ 8,566,923	$ (4,864,326)
EARNINGS (LOSS) PER SHARE:				
Basic	$ 0.31	$ (0.21)	$ 0.26	$ (0.19)
Diluted	$ 0.31	$ (0.21)	$ 0.26	$ (0.19)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES:				
Basic	43,214,455	37,020,321	41,327,666	33,965,100
Diluted	43,530,185	37,020,321	41,462,490	33,965,100

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, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ 10,604,627	$ (6,496,469)
Net (loss) income from discontinued operation		(27,065)
Net (loss) income from continuing operation	10,604,627	(6,469,404)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,157,606	6,144,086
Deferred taxes	808,725	677,912
Change of derivative instrument s fair value	(6,814,675)	6,956,963
Loss in investment in associated company	54,290	45,327
Share of (profit) loss after tax of JV	(3,757,218)	120,017
Changes in operating assets and liabilities:		
(Increase) Decrease In:		
Accounts receivable	17,190,113	16,665,031
Inventories	(5,480,008)	(14,846,384)
Other receivables and prepaid expenses	105,092	(805,480)
Due from employees	413,441	5,187
Prepayments and prepaid expenses	(49,927,475)	(6,661,365)
Amount due from JV	(49,177,160)	-
Increase (Decrease) In:		
Accounts payable	32,911,627	(144,929)
Other payables and accrued liabilities	2,441,464	(963,422)
Customer deposits	108,031	388,714
Due to related party	-	-
Due to JV company	-	20,040,119
Income tax payable	(36,060)	(222,100)
Net cash (used in) provided by operating activities	$ (46,397,580)	$ 20,930,272
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of plant and equipment	(813,246)	(44,250)
Purchases of land use rights	(1,667,986)	-
Purchase of construction in progress	(39,283)	-
Issuance of notes receivable	(21,698,986)	(1,972,619)
Repayments of notes receivable	29,344,951	310,674
Investment in Joint Venture Company	-	(80,366,213)
Disposal of subsidiary	-	64,292,970
Disposal of associated company	(96,268)	
Deposit for disposal of subsidiary	-	12,858,594
Assets acquisition, net of deposit	-	(39,524,103)
Net cash provided by (used in) investing activities	$ 5,029,182	$ (44,444,947)

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30, 2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash	$ (13,006,018)	$ 4,820,363
Proceeds from short-term bank loans	28,616,816	29,735,499
Repayments of short-term bank loans	(39,998,504)	(28,931,837)
Proceeds from notes payable	13,007,644	68,473,621
Repayments of notes payable	(16,584,746)	(66,543,224)
Common stock and warrants issued	78,155,627	26,387,498
Warrant exercise	22,447,914	3,848,134
Option exercise & other financing	6,429,622	85,200
Repayment of bond		(12,858,594)
Net cash provided by financing activities	79,068,355	25,016,660
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,699,957	1,501,985
Effect of exchange rate changes on cash	(961,614)	(1,188,737)
Cash and cash equivalents at beginning of period	12,762,369	12,135,096
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 49,500,712	$ 12,448,344
SUPPLEMENTARY CASH FLOW INFORMATION		
Income taxes paid	$ 1,305,468	$ 724,223
Interest paid	$ 1,748,140	$ 2,959,231

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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, all-terrain vehicles, go-karts, specialized utility vehicles and a variety of other specialty 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:

* The box with dotted-line border represents the entity that has ceased operation and was dissolved in July 2014.

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(UNAUDITED)

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% profits and loss absorption rate) 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%. Kandi New Energy currently holds vehicle production rights (license) on manufacturing Kandi brand electric utility vehicles ("Special-purpose Vehicles") and production rights (license) on manufacturing battery packs used in Kandi brand EVs. Kandi New Energy supplies battery packs for Kandi brand electric vehicles ("EVs").

Jinhua Three Parties New Energy Vehicles Service Co., Ltd. ("Jinhua Service") was formed as a joint venture, by and among our wholly-owned subsidiary, Kandi Vehicles, the State Grid Power Corporation and Tianneng Power International. The Company, indirectly through Kandi Vehicles, had a 30% ownership interest in Jinhua Service. As of September 30, 2014, Jinhua Service ceased its operations and was dissolved. Jinhua Services was established in order to provide public charging stations for lead-acid batteries for EVs in Jinhua city. Currently, most of EV customers in Jinhua have the ability to charge their EVs by themselves. Since self-charging is more cost-effective and most of them have switched to self-charging, Jinhua Service ceased its operations and was dissolved accordingly.

In April 2012, pursuant to a share exchange agreement, the Company acquired 100% of Yongkang Scrou Electric Co, Ltd. ("Yongkang Scrou"), a manufacturer of automobile and electric vehicle parts. Yongkang Scrou currently manufactures and sells EV drive motors, EV controllers, air conditioners and other electrical products to 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 EVs and related auto parts. Each of Kandi Vehicles and Shanghai Guorun has 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 that are 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 an ownership transfer agreement with 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.

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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% profits and losses) of Kandi Wanning. Hainan Province is planned as an international tourism island by the Chinese government and there is a high possibility that all non-EV vehicles will be banned from use within the province. Therefore, the Company believes EV business has a great potential growth rate in Hainan province. To capture this opportunity, the Company signed an agreement with Wanning city government and invested a total of RMB 1 billion to develop a factory in Wanning with an annual production of 100,000 EVs . Currently, Kandi Wanning is planning to launch its trial production by 2015. According to the JV Agreement, once Kandi Wanning becomes fully operational, its entire equity interests will be transferred to the JV Company.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 has a 19% ownership interest in the Service Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 9.5% economic interest in the Service Company.

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 the JV Company and its subsidiaries, Kandi Vehicle and its subsidiaries are not allowed to manufacture pure EVs. However, Kandi New Energy holds the production rights (license) on manufacturing of Special-purpose Vehicles. Therefore, it is necessary to establish Kandi Jinhua, which is in charge of the Special-purpose Vehicle business and entitles 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 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. 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.

KANDI TECHNOLOGIES GROUP, INC.
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(UNAUDITED)

The Company's primary business operations are the design, development, manufacturing and commercialization of EV products, all-terrain vehicles ("ATVs"), go-karts, and other related specialized automobiles. As part of its strategic objective to become a leader in EV products manufacturing 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

As of September 30, 2014, the Company's working capital surplus was $108,121,553.

As of September 30, 2014, the amount of advances to suppliers was $58,777,479, which included the advance of RMB353 million or approximately $57,342,430 for a prepayment by Kandi Wanning to an equipment supplier - Nanjing Shangtong Auto Technologies Co., Ltd. ("Nanjing Shangtong") for equipment purchases. The equipment will be purchased and delivered according to the construction schedule and development of Kandi Wanning. This advance will be used to offset the equipment purchase price upon delivery.

As of September 30, 2014, the Company had credit lines from commercial banks of $41,910,331, of which $35,412,606 was used as of September 30, 2014.

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, if needed. However, the Company believes its access to existing financing sources, including its $71 million registered direct offering financing completed on September 4, 2014 and established relationships with PRC banks will enable it to meet its obligations and 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 terms, 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 will be 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, which warrants have a term of 18 months from the date of issuance.

KANDI TECHNOLOGIES GROUP, INC.
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(UNAUDITED)

On September 4, 2014, the Company raised approximately $71.00 million before deducting fees to the placement agent and other offering expenses incurred by the Company 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, which warrants have a term of 17 months from the date of issuance.

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 and have been consistently applied in the presentation of financial statements.

The financial information included herein for the three-month and nine-month periods ended September 30, 2014 and 2013 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-month periods ended September 30, 2014 are not necessarily indicative of the results expected for the entire fiscal year ending December 31, 2014.

NOTE 4 – PRINCIPLES OF CONSOLIDATION

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

(i) Continental Development Limited. ("Continental") (a wholly-owned subsidiary of the Company)

(ii) Zhejiang Kandi Vehicles Co., Ltd. ("Kandi Vehicles") (a wholly-owned subsidiary of Continental)

(iii) Jinhua Kandi New Energy Vehicles Co., Ltd. ("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) Yongkang Scrou Electric. Co., Ltd ("Yongkang Scrou") (a wholly-owned subsidiary of Kandi Vehicles)

KANDI TECHNOLOGIES GROUP, INC.
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(UNAUDITED)

(v) Kandi Electric Vehicles (Wanning) Co., Ltd. ("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.

(vi) Kandi Electric Vehicles Group Co., Ltd. (the "JV Company") (a 50% owned subsidiary of Kandi Vehicles)

(vii) Kandi Electric Vehicles (Changxing) Co., Ltd. ("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)

(viii) Zhejiang Kandi Electric Vehicles Jinhua Co., Ltd. ("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)

(ix) Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. ("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)

(x) Kandi Electric Vehicles (Shanghai) Co., Ltd. ("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)

(xi) Kandi Electric Vehicles Jiangsu Co., Ltd. ("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)

(xii) Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. (the "Service Company") (a 19% owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 9.5% economic interest)

(xiii) Jinhua Three Parties New Energy Vehicles Service Co., Ltd. ("Jinhua Service") (a 30% owned subsidiary of Kandi Vehicles), which was dissolved in July 2014.

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

KANDI TECHNOLOGIES GROUP, INC.
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 5 – USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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 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.

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As of September 30, 2014, 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, 2014	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 49,500,712	$ 49,500,712	-	-
Restricted cash	12,995,452	12,995,452	-	-
Warrants	12,059,519	-	-	12,059,519

Cash and cash equivalents consist primarily of highly-rated money market funds at a variety 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, which will be 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, 2014 and December 31, 2013, represented time deposits on account, some of which were used to secure short-term bank loans and notes payable. As of September 30, 2014, the Company s restricted cash was $12,995,452.

(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.

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Net realizable value is based on estimated selling prices less any further costs expected to be incurred for completion and selling expense. 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, 2014 and December 31, 2013, the Company had no allowance for doubtful accounts, as per the management's judgment based on their best knowledge.

As of September 30, 2014 and December 31, 2013, the credit terms with the Company's customers were typically 90 to 120 days after delivery.

(f) Note 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 will provide an accrual for the related foreclosure expenses and related litigation expenses.

(g) Prepayments

Prepayments represent cash paid in advance to suppliers. As of September 30, 2014, prepayments included 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 will be offset against purchase amount after equipment is 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:

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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) 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 the term of fifty years.

(k) 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 reporting period, no impairment loss was recognized.

(l) 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.

When the products are transferred to the other party while the risks are transferred to it, and at that time the Company recognizes revenue.

(m) 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 $391,097 and $500,864 for the three months ended September 30, 2014 and 2013, respectively. Research and development expenses were $2,535,027 and $1,863,020 for the nine months ended September 30, 2014 and 2013, respectively.

(n) Government Grant

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

For the three and nine months ended September 30, 2014 and 2013, $63,584 and $11,077, and $217,284 and $60,844, respectively, were received by Kandi Vehicle from the PRC government.

(o) 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.

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(p) 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, 2014	December 31, 2013	September 30, 2013
Period end RMB : USD exchange rate	6.1560	6.1140	6.1514
Average RMB : USD exchange rate	6.1502	6.1982	6.2215

(q) 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.

(r) Segments

In accordance with ASC 280-10, *Segment Reporting* (ASC 280-10), the Company s chief operating decision makers rely upon 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.

(s) Stock Option Cost

The Company s stock option cost is recorded in accordance with ASC 718 and ASC 505.

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.

Stock option expense recognized 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 expense for the three and nine months ended September 30, 2014 was $0. See Note 18.

(t) Warrant Cost

The Company's warrant costs are recorded in liabilities and equities, respectively, in accordance with ASC 480, ASC 505 and ASC 815.

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.

(u) Goodwill

The Company allocates goodwill to reporting units based on the reporting unit expected 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.

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Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and 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, 2014, the Company determined that goodwill was not impaired.

(v) Intangible assets

Intangible assets consist of tradenames and customer relations associated with the purchase price allocation of Yongkang Scrou. Such assets are being amortized over their estimated useful lives of 9.7 years. Intangible assets are amortized as of September 30, 2014.

NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements

The FASB has issued Accounting Standards Update (ASU) No. 2014-07, Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements. The guidance addresses the consolidation of lessors in certain common control leasing arrangements and is based on a consensus reached by the Private Company Council (PCC). Under current U.S. GAAP, a company is required to consolidate an entity in which it has a controlling financial interest. The assessment of controlling financial interest is performed under either: (a) a voting interest model; or (b) a variable interest entity model. In a variable interest entity model, the company has a controlling financial interest when it has: (a) the power to direct the activities that most significantly affect the economic performance of the entity; and (b) the obligation to absorb losses or the right to receive benefits of the entity that could be potentially significant to the entity. To determine which model applies, a company preparing financial statements must first determine whether it has a variable interest in the entity being evaluated for consolidation and whether that entity is a variable interest entity. The new guidance allows a private company to elect (when certain conditions exist) not to apply the variable interest entity guidance to a lessor under common control. Instead, the private company would make certain disclosures about the lessor and the leasing arrangement.

Under the amendments in this ASU, a private company lessee could elect an alternative not to apply variable interest entity guidance to a lessor when:-The private company lessee and the lessor are under common control;-The private company lessee has a leasing arrangement with the lessor;-Substantially all of the activity between the private company lessee and the lessor is related to the leasing activities (including supporting leasing activities) between those two companies, and-If the private company lessee explicitly guarantees or provides collateral for any obligation of the lessor related to the asset leased by the private company, then the principal amount of the obligation at inception does not exceed the value of the asset leased by the private company from the lessor. If elected, the accounting alternative should be applied to all leasing arrangements meeting the above conditions. The alternative should be applied retrospectively to all periods presented, and is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early application is permitted for all financial statements that have not yet been made available for issuance.

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The FASB has issued Accounting Standards Update (ASU) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in the ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure will provide users with information about the ongoing trends in a reporting organization's results from continuing operations. The amendments in this ASU enhance convergence between U.S. GAAP and International Financial Reporting Standards (IFRS). Part of the new definition of discontinued operation is based on elements of the definition of discontinued operations in IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations. The Company does not expect the adoption of 2014-08 to have a material effect on its operating results or financial position. 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 financial statements upon adoption.

NOTE 8 – CONCENTRATIONS

(a) Customers

For the nine-month period ended September 30, 2014, the Company's major customers, each of whom accounted for more than 10% of the Company's consolidated revenue, were as follows:

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	Sales		Accounts Receivable	
Major Customers	**Nine Months Ended September 30, 2014**	**Nine Months Ended September 30, 2013**	**September 30, 2014**	**December 31, 2013**
Kandi Electric Vehicles (Changxing) Co., Ltd.	44%	-	47%	-
Shanghai Maple Auto Co., Ltd	15%	-	2%	52%
Kandi Electric Vehicles (Shanghai) Co., Ltd.	21%	-	-	-

For the three-month period ended September 30, 2014, the Company s major customers, each of whom accounted for more than 10% of the Company s consolidated revenue, were as follows:

	Sales		Accounts Receivable	
Major Customers	**Three Months Ended September 30, 2014**	**Three Months Ended September 30, 2013**	**September 30, 2014**	**December 31, 2013**
Kandi Electric Vehicles (Changxing) Co., Ltd.	49%	-	47%	-
Kandi Electric Vehicles (Shanghai) Co., Ltd.	30%	-	-	-

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, 2014, the Company sold $33,655,560 and $10,427,219 of battery packs, body parts, motors, air conditioning units, and other auto parts to Kandi Changxing and Kandi Shanghai, respectively. The balance 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 21.

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(b) Suppliers

For the nine-month period ended September 30, 2014, the Company s material suppliers, each of whom accounted for more than 10% of the Company s total purchases, were as follows:

Major Suppliers	Purchases		Accounts Payable	
	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	September 30, 2014	December 31, 2013
Shandong Henyuan New Energy Tech Co., Ltd.	30%	-	25%	-
Zhejiang Xinneng Automotive Systems Co. Ltd.	16%	-	29%	-
Zhongju (Tianjin) New Energy Investment Co., Ltd.	11%	-	15%	-

For the three-month period ended September 30, 2014, the Company s material suppliers, each of whom accounted for more than 10% of the Company s total purchases, were as follows:

Major Suppliers	Purchases		Accounts Payable	
	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	September 30, 2014	December 31, 2013
Zhejiang Xinneng Automotive Systems Co. Ltd.	38%	-	29%	-
Shandong Henyuan New Energy Tech Co., Ltd.	30%	-	25%	-

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, 2014 and 2013, the number of potentially dilutive common shares was 315,730 and 0, respectively. For the nine months ended September 30, 2014 and 2013, the number of potentially dilutive common shares was 134,824 and 0, respectively.

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The following is the calculation of earnings per share:

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$ 13,533,702	$ (7,689,042)	$ 10,604,627	$ (6,496,469)
Weighted average shares used in basic computation	43,214,455	37,020,321	41,327,666	33,965,100
Dilutive shares	315,730	-	134,824	-
Weighted average shares used in diluted computation	43,530,185	37,020,321	41,462,490	33,965,100
Earnings (loss) per share:				
Basic	$ 0.31	$ (0.21)	$ 0.26	$ (0.19)
Diluted	$ 0.31	$ (0.21)	$ 0.26	$ (0.19)

Also see Note 18.

NOTE 10 - INVENTORIES

Inventories are summarized as follows:

	September 30, 2014 (Unaudited)	**December 31, 2013**
Raw material	$ 2,240,832	$ 2,646,041
Work-in-progress	10,141,925	5,065,126
Finished goods	2,567,472	1,829,281
	14,950,229	9,540,448
Less: reserve for slow moving inventories	(350,328)	(352,734)
Inventories, net	$ 14,599,901	$ 9,187,714

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NOTE 11 - NOTES RECEIVABLE

Notes receivable are summarized as follows:

		September 30, 2014 (Unaudited)		December 31, 2013
Notes receivable from unrelated companies:				
Due September 30, 2014, interest at 9.6% per annum [1]	$	5,809,397	$	13,794,094
		5,809,397		13,794,094
Bank acceptance notes:				
Bank acceptance notes		251,787		-
Notes receivable	$	6,061,184	$	13,794,094

Details of Notes receivable from unrelated parties as of December 31, 2013

Index	Amount ($)	Counter party	Relationship	Purpose of Loan	Manner of settlement
1	13,794,094	Yongkang HuiFeng Guarantee Co., Ltd	No relationship beyond loan	Receive interest income	Not due

Details of Notes receivable from unrelated parties as of September 30, 2014

Index	Amount ($)	Counter party	Relationship	Purpose of Loan	Manner of settlement
1	5,809,397	Yongkang HuiFeng Guarantee Co., Ltd	No relationship beyond loan	Receive interest income	Not due

NOTE 12 LAND USE RIGHTS

Land use rights consisted of the following:

		September 30, 2014 (Unaudited)		December 31, 2013
Cost of land use rights	$	17,778,947	$	16,223,208
Less: Accumulated amortization		(2,038,821)		(1,770,017)
Land use rights, net	$	15,740,126	$	14,453,191

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As of September 30, 2014 and December 31, 2013, the net book value of land use rights pledged as collateral for the Company s bank loans was $6,287,538 and $9,983,647, respectively. Also see Note 14.

The amortization expense for the nine months ended September 30, 2014 and 2013 was $281,143 and $264,181, respectively. The amortization expense for the three months ended September 30, 2014 and 2013 was $97,238 and $88,805, respectively. Amortization expense for the next five years and thereafter is as follows:

2014 (three months)	$	93,714
2015		374,857
2016		374,857
2017		374,857
2018		374,857
Thereafter		14,146,984
Total	$	15,740,126

NOTE 13 PLANT AND EQUIPMENT

Plant and equipment consisted of the following:

		September 30, 2014 (Unaudited)		December 31, 2013
At cost:				
Buildings	$	14,487,064	$	14,514,873
Machinery and equipment		10,926,516		10,771,899
Office equipment		276,496		251,690
Motor vehicles		336,093		288,004
Molds		34,433,070		34,230,014
		60,459,239		60,056,480
Less : Accumulated depreciation				
Buildings	$	(3,356,682)	$	(3,010,451)
Machinery and equipment		(10,309,832)		(10,278,409)
Office equipment		(214,751)		(196,303)
Motor vehicles		(243,576)		(228,442)
Molds		(19,841,458)		(16,648,583)
		(33,966,298)		(30,362,188)
Less: provision for impairment for fixed assets		(358,315)		(360,776)
Plant and equipment, net	$	26,134,626	$	29,333,516

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As of September 30, 2014 and December 31, 2013, the net book value of plant and equipment pledged as collateral for bank loans was $8,229,842 and $11,292,649, respectively.

Depreciation expense for nine months ended September 30, 2014 and 2013 was $3,814,892 and $5,818,334, respectively. Depreciation expense for three months ended September 30, 2014 and 2013 was $1,274,860 and $1,789,731, respectively.

NOTE 14 SHORT TERM BANK LOANS

Short-term loans are summarized as follows:

	September 30, 2014 (Unaudited)	December 31, 2013
Loans from Jinhua Bank		
Monthly interest only payments at 6.30% per annum, due October 10, 2014, guaranteed by Mr. Hu Xiaoming and Ms. Ling Yueping, and secured by the assets of the Company. Also see Note 12 and Note 13	$ 1,624,431	$ 1,635,590
Monthly interest only payments at 6.30% per annum, due December 2, 2014, guaranteed by Mr. Hu Xiaoming and Ms. Ling Yueping, and secured by the assets of the Company. Also see Note 12 and Note 13	812,216	817,795
Monthly interest only payments at 6.30% per annum, due December 2, 2014, guaranteed by Zhejiang Kangli Metal Manufacturing Company, Mr. Hu Xiaoming, Ms. Ling Yueping, Mr. Lv Qingbo and Mr. Lv Qingjiang, and secured by the assets of the Company. Also see Note 12 and Note 13	3,248,863	3,271,181
Loans from Yongkang Rural Cooperative Bank		
Monthly interest only payments at 0.927% per month, due January 31, 2015, guaranteed by Yongkang Sanli Metal Co., Ltd.	812,216	817,795
Loans from China Ever-bright Bank		
Monthly interest only payments at 6.94% per annum, due May 14, 2014, 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. The loan was fully repaid. Also see Note 12 and Note 13.	-	12,757,606
Monthly interest only payments at 7.08% per annum, due May 11, 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 12 and Note 13.	12,670,565	-

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Loans from Shanghai Pudong Development Bank				
Monthly interest only payments at 6.60% per annum, due September 4,2014, secured by the assets of the Company, guaranteed by Mr. HuXiaoming. Also see Note 12 and Note 13.		-		6,542,362
Loans from Bank of Shanghai				
Monthly interest only payments at 6.60% per annum, due December 27, 2014, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Zhejiang Kangli Metal Manufacturing Company and Nanlong Group Co., Ltd.		-		4,906,771
Loans from China Ever-growing Bank				
Monthly interest only payments at 7.20% per annum, due April 22, 2014, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Zhejiang Shuguang industrial Co., Ltd. and Zhejiang Mengdeli Electric Company. The loan was fully repaid.		-		3,271,181
Monthly interest only payments at 7.20% per annum, due April 22, 2015, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, and Zhejiang Shuguang industrial Co., Ltd.		3,248,863		-
	$	22,417,154	$	34,020,281

Interest expense for the three months ended September 30, 2014 and 2013 was $558,806 and $576,980, respectively, and for the nine months ended September 30, 2014 and 2013 was $1,728,432, and $1,702,772, respectively.

As of September 30, 2014, the aggregate amount of short-term loans that was guaranteed by various third parties was $22,417,154.

- $12,670,565 was guaranteed by Zhejiang Mengdeli Electric Co Ltd (ZMEC).

- $3,248,863, was guaranteed by Zhejiang Kangli Metal Manufacturing Company, whose bank loan of $4,873,294 was guaranteed by the Company. Also see Note 23. $3,248,863 of the $3,248,863 was guaranteed by Lv Qingjiang and Lv Qingbo, two major shareholders of Zhejiang Kangli Metal Manufacturing Company. Also see Note 23.

- $3,248,863 was guaranteed by Zhejiang Shuguang industrial Co., Ltd., whose bank loan of $4,873,294 was guaranteed by the Company. Also see Note 23.

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- $12,670,565 was guaranteed by Nanlong Group Co., Ltd., whose bank loans of $9,746,589 was also guaranteed by the Company. Also see Note 23.

- $812,216 was guaranteed by Yonnkang Sanli Metal Co., Ltd.

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 debt 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 15 NOTES PAYABLE

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

Notes payable are summarized as follows:

		September 30,2014 (Unaudited)		December 31, 2013
Bank acceptance notes:				
Due March 18, 2014	$	-	$	1,962,709
Due May 19, 2014		-		8,177,952
Due May 21, 2014		-		6,542,362
Due November 16, 2014		12,995,452		-
Subtotal	$	12,995,452	$	16,683,023
Notes payable to unrelated companies:				
	$	-	$	-
Subtotal	$	-	$	-
Total	$	12,995,452	$	16,683,023

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 $0 and $59 for the three months ended September 30, 2014 and 2013, and were $6,498 and $13,824 for the nine months ended September 30, 2014 and 2013.

No restricted cash was held as collateral for the notes payable as of September 30, 2014 and December 31, 2013.

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NOTE 16 BOND PAYABLE

Due Date	Face Value	Coupon rate	Interest record date	Interest pay date
December 27, 2016	$ 12,995,452	11.5%	December 27	December 27
Total face value	$ 12,995,452			

On December 27, 2013, the Company issued bonds in the aggregate principal amount of RMB 80,000,000 to China Ever-bright Securities Co. Ltd. and CITIC Securities Company Limited. The bonds mature in 3 years, and the interest rate is 11.5% per annum. Bond interest is payable on December 27 in each of 2014, 2015 and 2016.

NOTE 17 TAX

(a) Corporation Income Tax (CIT)

In accordance with the relevant tax laws and regulations of the PRC, the applicable CIT rate is 25%. However, Kandi Vehicle is qualified as a high technology company in the PRC and is entitled to pay a reduced income tax rate of 15%.

Kandi New Energy is a subsidiary of the Company and its applicable CIT rate is 25%. Yongkang Scrou is a subsidiary of the Company and its applicable CIT rate was 25%. Kandi Wanning is a subsidiary of the Company and its applicable CIT rate is 25%.

The Company has a 50% ownership interest in the JV Company and the JV Company, including each of its subsidiaries applicable CIT rate is 25%.

Kandi Vehicle qualifies as a high technology company in the PRC and is entitled to pay CIT at the reduced rate of 15%. However, as the tax policy in the PRC does not allow double tax benefits, the Company s high technology tax benefit of 10% must be reduced by the research and development tax benefits to which the Company also is entitled, which amount to 25% of an amount equal to 50% of allowable research and development expenses. For the nine months ended September 30, 2014, the Company s CIT before reduction for the Company s high technology tax benefit was $447,014, or 25% of the Company s $1,788,056 taxable income for such period which reduced to $130,563 after giving effect to the Company s research and development tax credit of $316,449 was 25% of 50% of $2,531,589 allowable research and development expenses for such period. To comply with the PRC policy prohibiting double tax benefits, the Company s high technology tax benefit for the nine months ended September 30, 2014 was reduced from $178,896, or 10% of the Company s $1,788,056 attributed taxable income for such period to $52,226 or 2.92% of such taxable income. Since the R&D tax credit is not refundable, the maximum R&D tax credit allowance was limited to the maximum tax due, which was $316,449 for the nine months ended September 30, 2014 combining with the un-utilized portion of R&D tax credit carried forward from the prior period. As a result, the Company’s effective income tax rate for the nine months ended September 30, 2014 was 4.38% after the research and development credit and high technology tax reduction.

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According to the PRC CIT reporting system, the CIT sales cut-off base is concurrent with the value-added tax (“VAT”), which will 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, 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, 2014, the Company did not have a liability for unrecognized tax benefits. The Company files income tax returns to the U.S. Internal Revenue Services (“IRS”) and to states in which 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 had 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 the PRC. As of September 30, 2014, the Company was not aware of any pending income tax examinations by the PRC tax authorities. The Company’s policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of September 30, 2014, the Company had 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 nine months ended September 30, 2014 due to the net operating loss carry forward in the United States.

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Income tax expense (benefit) for the Nine Months Ended September 30, 2014 and 2013 is summarized as follows:

	For the Nine Months Ended September 30, (Unaudited)	
	2014	**2013**
Current:		
Provision for CIT	$ 1,269,408	$ 842,863
Provision for Federal Income Tax	-	-
Deferred:		
Provision for CIT	-	-
Income tax expense (benefit)	$ 1,269,408	$ 842,863

The Company s income tax expense (benefit) differs from the expected tax expense for the nine months ended September 30, 2014 and 2013 (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 the Nine Months Ended September 30, (Unaudited)	
	2014	**2013**
Computed expected expense	$ 1,594,293	$ 897,840
Favorable tax rate	(368,675)	(799,986)
Permanent differences	(877,509)	737,764
Valuation allowance	921,299	7,245
Income tax expense (benefit)	$ 1,269,408	$ 842,863

The tax effects of temporary differences that give rise to the Company s net deferred tax assets and liabilities as of September 30, 2014 and December 31, 2013 are summarized as follows:

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	September 30, 2014 (Unaudited)	December 31, 2013
Current portion:		
Deferred tax assets (liabilities):		
Expense	$ 91,904	$ 47,224
Subtotal	91,904	47,224
Deferred tax assets (liabilities):		
Sales cut-off (CIT tax reporting on VAT tax system)	(379,908)	(33,518)
Other	(138,763)	
Subtotal	(518,671)	(33,518)
Total deferred tax assets (liabilities) current portion	(426,767)	13,706
Non-current portion:		
Deferred tax assets (liabilities):		
Depreciation	-	81,076
Loss carried forward	921,299	3,992,906
Valuation allowance	(921,299)	(3,992,906)
Subtotal	-	81,076
Deferred tax liabilities:		
Accumulated other comprehensive gain	(1,299,882)	(1,009,477)
Subtotal	(1,299,882)	(1,009,477)
Total deferred tax assets non-current portion	(1,299,882)	(928,401)
Net deferred tax assets (liabilities)	$ (1,726,649)	$ (914,695)

(b) Tax Benefit (Holiday) Effect

For the nine months ended September 30, 2014 and 2013, the PRC CIT rate was 25%. Certain subsidiaries of the Company are entitled to tax benefit (holidays) for the nine months ended September 30, 2014 and 2013.

The combined effects of the income tax expense exemptions and reductions available to the Company for the nine months ended September 30, 2014 and 2013 are as follows:

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	For the Nine Months Ended September 30, (Unaudited)			
		2014		2013
Tax benefit (holiday) credit	$	368,675	$	489,815
Basic net income per share effect	$	0.009	$	0.014

NOTE 18 - STOCK OPTIONS, WARRANTS AND CONVERTIBLE NOTES

(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% . As of September 30, 2014, options for 2,366,672 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 September 30, 2014, options for 250,000 shares had been exercised and remaining option to purchase, 100,000 shares were forfeited due to the non-performance of services.

The following is a summary of the stock option activities of the Company:

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	Number of Shares	Weighted Average Exercise Price
Outstanding as of January 1, 2014	326,660	$ 1.01
Granted	-	-
Exercised	(226,660)	-
Cancelled	(100,000)	1.50
Outstanding as of September 30, 2014	-	0.80

The fair value per share of the 2,600,000 options issued to the employees and directors in February 2009 is $0.7934 per share.

(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 the 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). As of September 30, 2014 all the Third Round Series A, Series B and Series C warrants had been exercised on a cash basis and the Third Round Placement Agent Warrants, which will expire on July 1, 2016, had a fair value of $8.69 per share.

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 Fourth Round 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 shall be reduced by a credit of $0.01, which reflects the price per warrant share paid in connection with the issuance of the Fourth Round Warrants. Consequently, the effective exercise price per warrant share shall be $14.99. The Fourth Round Warrants were immediately exercisable and will expire on January 30, 2015. As of September 30, 2014, the fair value of the Fourth Round Warrants was $7.38 per share.

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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 "Fifth 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. The Fourth Round Warrants have a term of eighteen months and are exercisable by the holders at any time after the date of issuance. As of September 30, 2014, the fair value of the Fourth Round Warrants was $7.26 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. 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"). The Fifth Round Warrants have a term of seventeen months and are exercisable by the holders at any time after the date of issuance. 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, 2014, the fair value of the Fifth Round Warrants was $7.52 per share.

In addition, any Fifth Round Investor that invests more than $30 million in the initial offering of shares and warrants in the Fifth Round will have 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 our comment stock at $17.20 for a period commencing from September 4, 2014 and ending on November 17, 2014.

NOTE 19 – STOCK AWARD

In connection with his appointment to the Board of Directors, and as compensation for serving, the Board of Directors has authorized the issuance by the Company to Mr. Henry Yu of 5,000 shares of Company's restricted common stock every six months from July 2011.

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As compensation for his services, the Board of Directors has authorized the issuance by the Company to Mr. Jerry Lewin of 5,000 shares of Company's restricted common stock every six months, from August 2011.

As compensation for her services, the Board of Directors authorized the issuance by the Company to Ms. Kewa Luo of 5,000 shares of Company's common stock every six months, beginning in September 2013.

As compensation for his services, the Board of Directors authorized the issuance by the Company to Mr. Wei Chen of 10,000 shares of Company's common stock every year beginning in January 2012 and 2,500 shares of Company's common stock every three months, beginning in January 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 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 of Directors 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 determination that the Company's "Non-GAAP Net Income" for the fiscal year increased by 10% comparing to that of the prior year's. 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 increases by 10% compared to the Non-GAAP Net Income for the 2013 fiscal year, the selected executives and other key employees each will 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 will be granted. If Non-GAAP Net Income in 2014 increases compared to Non-GAAP Net Income in 2013 but the increase is less than 10%, then the target amount of the common stock grant will be proportionately decreased. If Non-GAAP Net Income in 2014 increases compared to Non- GAAP Net Income in 2013 but the increase is more than 10%, then the target amount of the common stock grant will be proportionately increased up to 200% of the target amount. Any such increase in the grant will be subject to the total number of shares available under the Plan, and the Company's Board of Directors 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.

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 according to the estimation of Non-GAAP Net Income of the whole year of 2014 based on the Non-GAAP Net Income of the first nine months of 2014. The compensation expense is recognized in General and Administrative Expenses.

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NOTE 20 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 as of September 30, **2014**		September 30, 2014 (Unaudited)	December 31, 2013
Gross carrying amount:				
Trade name	7.25 years	$	492,235	492,235
Customer relations	7.25 years		304,086	304,086
			796,321	796,321
Less : Accumulated amortization				
Trade name		$	(122,636)	(84,576)
Customer relations			(75,760)	(52,249)
			(198,396)	(136,825)
Intangible assets, net		$	597,924	659,496

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 $20,524 and $20,524 for the three months ended September 30, 2014 and 2013, respectively, and $61,571 and $61,571 for the nine months ended September 30, 2014 and 2013, respectively.

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

2014 (three months)	$	20,524
2015		82,095
2016		82,095
2017		82,095
2018		82,095
Thereafter		249,020
Total	$	597,924

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NOTE 21 – 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 electrical vehicles ("EVs") and related auto parts. Each of Kandi Vehicles and Shanghai Guorun has a 50% ownership interest in the JV Company. In 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 Maple 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. The Company, indirectly through its 50% ownership interest in the JV Company, has a 9.5% of economic interest in the Service Company. In March 2014, the JV Company changed its name to Kandi Electric Vehicles Group Co., Ltd.

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As of September 30, 2014, 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 Nine Months Ended September 30, 2014, 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, 2014	Three months ended September 30, 2013
Condensed income statement information:		
Net sales	$ 46,847,556	$ -
Gross income (loss)	7,025,415	-
Net income (loss)	4,398,828	(219,281)
Company s equity in net income of JV	$ 2,199,414	$ (109,640)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Condensed income statement information:		
Net sales	$ 126,763,793	$ -
Gross income (loss)	13,944,898	-
Net income (loss)	6,782,272	(240,033)
Company s equity in net income of JV	$ 3,391,136	$ (120,016)

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		September 30, 2014		December 31, 2013
Condensed balance sheet information:				
Current assets	$	197,823,997	$	108,139,053
Noncurrent assets		155,694,228		146,130,466
Total assets	$	353,518,225	$	254,269,519
Current liabilities		179,144,285		93,772,816
Noncurrent liabilities		8,196,329		-
Equity		166,177,611		160,496,703
Total liabilities and equity	$	353,518,225	$	254,269,519

During the first nine months of 2014, 99.2% of the JV Company s revenues were derived from the sales of EV products in the PRC with a total of 7,279 units sold during such period, among which, a total of 1,950 units of EV products were sold during the three months ended September 30, 2014. The growth of sales of EV products was mainly driven by the demand by Hangzhou Public EV Sharing System (the Car-Share Project) and group long-term lease project. 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, 2014 and 2013 are as follows:

	Nine Months Ended September 30,			
		2014		2013
Investment in JV Company, beginning of the period,	$	79,331,930	$	-
Investment in JV Company		-		81,282,310
Share of profit (loss)		3,391,136		(120,017)
Intercompany transaction elimination		(544,941)		-
Year 2013 unrealized profit realized		911,023		-
Exchange difference		(544,772)		(1,368)
Investment in JV Company, end of the period	$	82,544,376	$	81,160,925

KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Sales to our customers, the JV Company s subsidiaries, for the three and nine months ended September 30, 2014 were $36,071,967 and $78,540,158, respectively, 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 Kandi Changxing amounted to $21,697,691 and $51,271,121, respectively, Kandi Shanghai amounted to $13,334,005 and $24,120,011, respectively and Kandi Jinhua amounted to $1,040,860 and $2,557,746. Theses EV parts were used in manufacturing of pure products by the JV s Company s subsidiaries to sell entirely to the JV Company s customer or Shanghai Maple Auto Co., Ltd.(Shanghai Maple). Shanghai Maple holds the country s vehicle production rights of sedan, equivalent to license, that qualifies it to sell the EV products to the end customers. Shanghai Maple is 90% owned by Geely and 10% owned by Zhejiang Maple Asset Management Co. Ltd. According to the JV agreement, before the JV Company receives vehicle production rights (license), the JV Company and its subsidiaries all may sell their products through the channel of Shanghai Maple s vehicle production rights (license) to the end customers or the Service Company, which purchased and used the cars in Hangzhou Public EV sharing System and group long-term lease project. Of the total sales to the JV Company and its subsidiaries for the nine months ended September 30, 2014, approximately 78% of the 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 will be gradually transferred to the JV Company. The Company will be mainly responsible for supplying the JV Company with EV parts in the future and the JV Company will be responsible to produce EV products and to sell finished goods through channel to its end customers.

As of September 30, 2014 and December 31, 2013, the amount due from the JV Company, net was $52,028,753 and $2,917,592, respectively, of which the majority was the balances with Kandi Changxing and Kandi Shanghai. As of September 30, 2014 and December 31, 2013, the amount due from Kandi Changxing, net was $33,817,187 and $1,576,408, respectively, and the amount due from Kandi Shanghai, net was $10,414,241 and $0, respectively.

NOTE 22 ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

	September	**December**