

Kandi Technologies Corp
Form 10-Q
November 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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 001-52186

Kandi Technologies, Corp.
(Exact name of registrant as specified in charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

90-0363723
(I.R.S. Employer
Identification No.)

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

(86 - 0579) 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 ☒ 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 ☒ No ☐

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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 ☐

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 ☒

As of November 10, 2011 the registrant had issued and outstanding 27,445,600 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, CORP.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2011 (Unaudited)	December 31, 2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,881,477	\$ 7,754,166
Restricted cash	26,359,171	17,398,087
Accounts receivable	9,306,111	16,999,430
Inventories	8,675,723	5,886,506
Notes receivable	20,540,160	24,865,989
Other receivables	1,735,805	814,327
Prepayments and prepaid expenses	201,100	97,298
Due from employees	22,730	36,385
Advances to suppliers	3,436,136	188,585
Marketable securities (trading)	-	300,675
Due from related party	-	-
Total Current Assets	72,158,413	74,341,448
LONG-TERM ASSETS		
Plant and equipment, net	21,577,293	23,911,626
Land use rights, net	10,994,004	10,833,452
Construction in progress	6,117,082	-
Deferred taxes	204,397	255,948
Investment in associated companies	250,900	272,241
Total Long-Term Assets	39,143,676	35,273,267
TOTAL ASSETS	\$ 111,302,089	\$ 109,614,715

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2011 (Unaudited)	December 31, 2010
CURRENT LIABILITIES		
Accounts payable	\$ 5,209,813	\$ 6,452,652
Other payables and accrued expenses	651,693	794,625
Short-term bank loans	32,272,173	28,434,012
Customer deposits	59,634	82,127
Notes payable (net of discount of \$324 and \$0 as of September 30, 2011 and December 31, 2010 respectively)	13,858,029	19,039,898
Income tax payable	117,197	127,339
Due to employees	8,882	12,767
Due to related party	841,251	841,251
Deferred taxes	203,591	34,083
Financial derivative	75	-
Total Current Liabilities	53,222,338	55,818,754
LONG-TERM LIABILITIES		
Note payable, (net of discount of \$0 and \$730 as of September 30, 2011 and December 31, 2010 respectively)	-	270
Financial derivative	1,840,487	9,321,553
Total Long-Term Liabilities	1,840,487	9,321,823
TOTAL LIABILITIES	55,062,825	65,140,577
STOCKHOLDERS' EQUITY		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 27,445,600 and 27,396,101 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	27,446	27,396
Additional paid-in capital	31,386,164	31,090,100
Retained earnings (the restricted portion is \$1,319,067 at September 30, 2011 and December 31, 2010)	20,040,161	10,095,560
Accumulated other comprehensive income	4,785,493	3,261,082
TOTAL STOCKHOLDERS' EQUITY	56,239,264	44,474,138
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 111,302,089	\$ 109,614,715

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
REVENUES, NET	\$ 10,310,558	\$ 10,478,224	\$ 28,789,766	\$ 28,637,863
COST OF GOODS SOLD	(7,984,828)	(8,140,771)	(22,060,888)	(22,098,905)
GROSS PROFIT	2,325,730	2,337,453	6,728,878	6,538,958
Research and development	(608,463)	(459,935)	(1,695,003)	(1,203,270)
Selling and distribution expenses	(85,239)	(58,121)	(234,854)	(1,000,187)
General and administrative expenses	(1,067,021)	(516,929)	(2,568,417)	(2,315,088)
INCOME (LOSS) FROM OPERATIONS	565,007	1,302,468	2,230,604	2,020,413
Interest income (expense), net	117,353	(572,032)	95,549	(2,015,516)
Change in fair value of financial instruments	(271,780)	(2,578,693)	7,480,992	(802,884)
Government grants	9,235	191,934	289,962	266,911
Investment (loss) income	(12,905)	-	(20,181)	
Other income, net	95,067	33,249	262,299	91,088
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	501,977	(1,623,074)	10,339,225	(439,988)
INCOME TAX (EXPENSE) BENEFIT	(117,119)	(94,282)	(394,624)	(269,338)
NET INCOME (LOSS)	384,858	(1,717,356)	9,944,601	(709,326)

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
OTHER COMPREHENSIVE INCOME				
Foreign currency translation	377,991	595,771	1,524,411	726,711
COMPREHENSIVE INCOME (LOSS)	762,849	(1,121,585)	11,469,012	17,385
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	27,445,600	22,570,140	27,436,434	21,139,827
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	28,617,870	22,570,140	28,740,204	21,139,827
NET INCOME (LOSS) PER SHARE, BASIC	\$ 0.01	\$ (0.08)	\$ 0.36	\$ (0.03)
NET INCOME (LOSS) PER SHARE, DILUTED	\$ 0.01	\$ (0.08)	\$ 0.35	\$ (0.03)

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$9,944,601	\$(709,326)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,501,765	3,105,355
Deferred taxes	236,939	(10,549)
Option and warrant expense	195,474	2,198,961
Change of derivative instrument's fair value	(7,480,992)	2,434,909
Investment loss (income) in associated company	29,786	-
Changes in operating assets and liabilities:		
(Increase) Decrease In:		
Accounts receivable	8,118,796	1,014,365
Inventories	(2,554,537)	(5,403,855)
Other receivables	(880,750)	(573,000)
Due from employees	10,376	(91,416)
Prepayments and prepaid expenses	(3,290,026)	823,785
Marketable equity securities (trading)	305,564	-
Increase (Decrease) In:		
Accounts payable	(1,431,210)	5,230,579
Other payables and accrued liabilities	(156,970)	(480,855)
Customer deposits	(24,783)	(35,308)
Income tax payable	(14,090)	(108,396)
Net cash (used in) provided by operating activities	\$6,509,943	\$7,395,249
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of plant and equipment	(240,954)	(750,553)
Purchase of construction in progress	(6,019,101)	-
Issuance of notes receivable	7,810,463	(13,623,804)
Repayments of notes receivable	(2,751,302)	2,274,519
Net cash provided by (used in) investing activities	\$(1,200,894)	\$(12,099,838)

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30	
	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash	\$(8,255,977)	\$(3,964,344)
Proceeds from short-term bank loans	25,607,093	23,619,506
Repayments of short-term bank loans	(22,748,197)	(26,553,606)
Proceeds from notes payable	33,309,509	23,860,959
Repayments of notes payable	(39,023,610)	(7,955,742)
Option exercise and other financing	65,544	(932,425)
Repayments of advances to related parties	-	-
Net cash provided by financing activities	(11,045,638)	8,074,348
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,736,589)	3,369,759
Effect of exchange rate changes on cash	(136,100)	(176,124)
Cash and cash equivalents at beginning of period	7,754,166	218,207
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,881,477	\$3,411,842
SUPPLEMENTARY CASH FLOW INFORMATION		
Income taxes paid	\$408,714	\$388,351
Interest paid	\$1,776,835	\$1,331,792

SUPPLEMENTAL NON-CASH DISCLOSURE:

During the nine months ended September 30, 2011 and 2010, \$0 and \$0 were transferred from construction in progress to plant and equipment, respectively.

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 (UNAUDITED)

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

Kandi Technologies, Corp. (the “Company” or “Kandi”, formally known as Stone Mountain Resources Inc.) was incorporated under the laws of the State of Delaware on March 31, 2004. On August 13, 2007, the Company changed its name from Stone Mountain Resources, Inc. to Kandi Technologies, Corp.

The company’s organizational chart is as follows:

As the organizational chart reflects, Zhejiang Kandi Vehicles Co. Ltd. has a 50% ownership (voting) interest in Jinhua Kandi New Energy Vehicle Co. Ltd.; however, per the terms and conditions of its contractual arrangement with the other equity owner, Zhejiang Kandi Vehicles Co. Ltd. is entitled to 100% of the economic rights and interests (profits and loss absorption) in Jinhua Kandi New Energy Vehicle Co. Ltd.

The primary operations of the Company are the design, development, manufacturing, and commercializing of all-terrain vehicles, go-karts, and specialized automobiles such as Electric Vehicles (“EVs”) for the People’s Republic of China (“PRC”) and global export markets. Sales are mainly made to trading companies in China, then distributed throughout the world.

NOTE 2 – LIQUIDITY

The Company had a working capital surplus of \$18,936,075 at September 30, 2011, an improvement from a working capital surplus of \$3,044,974 as of September 30, 2010, which was principally due to the Company’s additional equity offering in December 2010 and the conversion of the January 2010 convertible notes to common stock. The Company used part of these proceeds in the Company’s working capital and used part of these proceeds in the prepayment for purchasing fixed assets used for production.

As of September 30, 2011, the Company has credit lines from commercial banks for \$44,050,111, of which \$30,928,801 had been drawn as of September 30, 2011. The Company believes that its cash flows generated internally may not be sufficient to sustain operations and repay short term bank loans for the next twelve months. However, the Company believes its access to existing financing sources and established relationships with PRC banks will enable it to meet its obligations and fund its ongoing operations.

The Company has historically financed itself through short-term commercial bank loans from PRC banks. Normally, the term of these loans are for one year, and upon the repayment of all outstanding principal and interest in a respective loan, PRC banks roll the loans over for 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 the short-term bank loans will be available on normal trade terms if needed.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 (UNAUDITED)

NOTE 3 - BASIS OF PRESENTATION

The Company maintains its general ledger and journals with the accrual method of accounting for financial reporting purposes. The financial statements and notes are representations of management. These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accounting policies adopted by the Company conform to U.S. generally accepted accounting principles ("GAAP") and have been consistently applied in the presentation of financial statements. The financial information included herein for the three and nine month periods ended September 30, 2011 and 2010 is 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 financial position, results of operations and cash flows of the Company for these interim periods. The results of operations for the nine month period ended September 30, 2011 are not necessarily indicative of the results expected for the entire fiscal year ending December 31, 2011.

NOTE 4 – PRINCIPLES OF CONSOLIDATION

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

- (i) Continental Development, Ltd. ("Continental") (a wholly-owned subsidiary of the Company)
- (ii) Zhejiang Kandi Vehicles Co., Ltd. ("Kandi Vehicles") (a wholly-owned subsidiary of Continental)
- (iii) Kandi Special Vehicles Co., Ltd. ("KSV") (a wholly-owned subsidiary of Kandi Vehicles)
- (iv) Jinhua Three Parties New Energy Vehicles Service Co., Ltd. ("Jinhua Service") (a 30% owned subsidiary of Kandi Vehicles)
- (v) Jinhua Kandi New Energy Vehicles Co., Ltd. ("Kandi New Energy") (a 50% owned subsidiary of Kandi Vehicles with 100% profits and loss absorption due to contractual agreement).

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such regulations, although we believe that the disclosures provided are adequate to prevent the information presented from being misleading. Specifically, inter-company accounts and transactions have been eliminated in consolidation.

NOTE 5 – USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP 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 management estimates.

NOTE 6 – RISKS AND UNCERTAINTIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Economic; Exchange Rate; Political Risks

The Company's operations are conducted in the PRC. Accordingly, 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.

Our operations are conducted mainly in the PRC. As such, our earnings are subject to movements in foreign currency exchange rates when transactions are denominated in Renminbi ("RMB"), which is our functional currency. Accordingly, our operating results are affected by changes in the exchange rate between the U.S. dollar and those currencies.

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

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 (UNAUDITED)

NOTE 6 – RISKS AND UNCERTAINTIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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.

The assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of September 30, 2011 are as follows:

	Fair Value Measurements at Reporting Date Using Quoted Prices in			
	Carrying value as of September 30, 2011	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	1,881,477	1,881,477		-
Restricted cash	26,359,171	26,359,171		-
Conversion features	75		75	-
Warrants	1,840,487		1,840,487	-

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 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 and conversion features embedded in the convertible notes, which are accounted as liabilities, are treated as derivative instruments, which will be measured at each reporting date for their fair value using Level 2 inputs. Also see Note 6 section (s) and (t).

The Company's non-financial assets are measured on a recurring basis. These non-financial assets are measured for impairment annually on the Company's measurement date at the reporting unit level using Level 3 inputs. For most assets, ASC 820 requires that the impact of changes resulting from its application be applied prospectively in the year in which the statement is initially applied.

The Company's non-financial assets measured on a non-recurring basis include the Company's property, plant and equipment and finite-use intangible assets which are measured for recoverability when indicators for impairment are present. ASC 820 requires companies to disclose assets and liabilities measured on a non-recurring basis in the period in which a fair value re-measurement is performed. The Company has reviewed its long-lived assets as of September 30, 2011 and determined that there are no significant assets to be tested for recoverability under ASC 360 and as such, no fair value measurements related to non-financial assets have been made during the nine months ended September 30, 2011.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 (UNAUDITED)

NOTE 6 – RISKS AND UNCERTAINTIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

(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 on September 30, 2011 and December 31, 2010 represent time deposits on account to secure short-term bank loans and notes payable. Also see Notes 14 and 15.

(d) Inventories

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

Net realizable value is based on estimated selling prices less any further costs expected to be incurred for completion and selling expense.

(e) Accounts Receivable

Accounts receivable are recognized and carried at net realizable value. An allowance for doubtful accounts will be recorded in the period when a loss is probable based on an assessment of specific evidence indicating troubled collection, historical experience, accounts aging, ongoing business relation and other factors. Accounts are written off after exhaustive efforts at collection. If accounts receivable are to be provided for, or written off, they would be recognized in the consolidated statement of operations within operating expenses. At September 30, 2011 and December 31, 2010, the Company has an allowance for doubtful accounts of \$0, as per the management's judgment based on their best knowledge.

As of each of September 30, 2011 and December 31, 2010, the longest credit term for certain customers was 120 days.

(f) Notes Receivable

Notes receivable represents short-term loans to third parties with the maximum term of one year. Interest income is recognized according to each agreement between a borrower and the Company on an accrual basis. If notes receivable are to be provided for, or written off, they are recognized in the relevant year if the loan default is probable, reasonably sure and the loss can be reasonably estimated. The Company recognizes income if the written-off loan is recovered at a future date. In case of foreclosure procedures or legal actions being taken, the Company provides accrual for the related foreclosure expense and related litigation expenses.

(g) Prepayments

Prepayments represent cash paid in advance to suppliers for raw materials used in the manufacturing process. For the fiscal quarter ended September 30, 2011, prepayments were primarily comprised of advances to mold manufactures. However, prepaid expenses, such as water and electricity fees, also contributed to the total number.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 (UNAUDITED)

NOTE 6 – RISKS AND UNCERTAINTIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

(h) Plant and Equipment

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

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

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

(i) Construction in Progress

Construction in progress represents direct costs of construction or the acquisition costs 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 the laws of China, land in the PRC is owned by the government and cannot be sold to an individual or a 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 lease 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 ASC No. 350. 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, there was no impairment loss.

(l) Revenue Recognition

Revenues represent the invoiced value of goods sold, recognized upon the shipment of goods to customers. Revenues are recognized when 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.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 (UNAUDITED)

NOTE 6 – RISKS AND UNCERTAINTIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

(m) Research and Development

Expenditures relating to the development of new products and processes, including significant improvement to existing products, are expensed as incurred. Research and development expenses were \$1,695,003 and \$1,203,270 for the nine months ended September 30, 2011 and 2010, respectively.

(n) Government Grants

Grants received from the PRC Government for assisting in the Company's technical research and development efforts are netted against the relevant research and development costs incurred when the proceeds are received or collectible.

For the nine months ended September 30, 2011 and 2010, \$289,962 and \$266,911, respectively, was received from the PRC government for the Company's contribution to the local economy.

(o) Income Taxes

The Company accounts for income tax using an asset and liability approach and allows for 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. 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.

(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 was obtained from website: <http://www.oanda.com>

	September 30, 2011	December 31, 2010	September 30, 2010
Period end RMB : USD exchange rate	6.4018	6.6118	6.6981
Average period RMB : USD exchange rate	6.5060	6.7788	6.8164

(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.

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NOTE 6 – RISKS AND UNCERTAINTIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

(r) 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 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 compensation expense for the period ended September 30, 2011 is \$195,474. Also see Note 17.

(s) 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 warrant is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's 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 measurement.

The Company determined that the equity based warrants are not considered derivatives under ASC 815, while 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.

(t) Fair Value of Conversion features

In accordance with ASC 815, the conversion feature of the Convertible Notes is separated from the debt instrument and accounted for separately as a derivative instrument. On the date the Convertible Notes are issued, the conversion feature was recorded as a liability at its fair value, and future decreases in fair value are recognized in earnings while increases in fair value are recognized in expenses.

The Company used the Black-Scholes-Merton option-pricing model to obtain the fair value of the conversion feature. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the conversion features. The risk-free interest rate for the expected term of the conversion features is based on the U.S. Treasury yield curve in effect at the time of measurement.

NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standard Board (“FASB”) issued Accounting Standard Update (“ASU”) ASU 2011-03, Consideration of Effective Control on Repurchase Agreements, which deals with the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 changes the rules for determining when these transactions should be accounted for as financings, as opposed to sales. The guidance in ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of ASU 2011-03 is not expected to have a material impact on the Company’s financial condition or results of operation.

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In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and IFRS, and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its operating results or financial position.

In June 2011, FASB issued ASU 2011-05, Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-05 to have a material effect on its operating results or financial position. The Company is currently evaluating ASU 2011-05's potential impact on its presentation of comprehensive income.

In September 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, Intangibles-Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

NOTE 8 – CONCENTRATIONS

(a) Customers

The Company's major customers for the period ended September 30, 2011 accounted for the following percentages of total sales and accounts receivable as follows:

	Sales		Accounts Receivable			
	Nine Months Ended		Nine Months Ended		September 30,	December 31,
	September 30,		September 30,		2011	2010
	2011		2010			
Major Customers	41	%	38	%	15	61
Company A	41	%	38	%	15	61

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Company B	19	%	13	%	31	%	14	%
Company C	16	%	42	%	24	%	20	%
Company D	9	%	-		7	%	-	
Company E	7	%	-		9	%	-	

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(b) Suppliers

The Company's major suppliers for the nine months ended September 30, 2011 accounted for the following percentage of total purchases and accounts payable as follows:

Major Suppliers	Purchases		Accounts Payable			
	Nine Months Ended		Nine Months Ended			
	September 30, 2011		September 30, 2010		September 30, 2011	December 31, 2010
Company F	66	%	82	%	3	26
Company G	3	%	-		11	1
Company H	2	%	2	%	1	4
Company I	2	%	-		-	1
Company J	2	%	-		4	-

Because the Company is dependent on a small number of suppliers and customers, it is reasonably possible that a permanent or temporary disruption in these relationships could result in a severe impact on our results of operations.

NOTE 9 –INCOME (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 fiscal year. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options, warrants and convertible note (using the if-converted method). For the nine months ended September 30, 2011, there are 1,304,091 potentially dilutive common shares. Also see Note 17.

The following table sets forth the computation of basic and diluted net income per common share:

Nine months Ended September 30,	2011	2010
Net income (loss)	\$9,944,601	\$(709,326)
Weighted – average shares of common stock outstanding		
Basic	27,436,434	21,139,827
Dilutive shares	1,303,770	-
Diluted	28,740,204	21,139,827
Basic income (loss) per share	\$0.36	\$(0.03)
Diluted income (loss) per share	\$0.35	\$(0.03)

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NOTE 10 - INVENTORIES

Inventories are summarized as follows:

	September 30, 2011 (Unaudited)	December 31, 2010
Raw material	\$ 1,566,100	\$ 1,754,216
Work-in-progress	5,367,801	3,668,104
Finished goods	1,741,822	464,186
	8,675,723	5,886,506
Less: reserve for slow moving inventories	-	-
Inventories, net	\$ 8,675,723	\$ 5,886,506

Net inventories increased \$2,789,217 from December 31, 2010 to September 30, 2011. This increase resulted primarily from the mass production of EV for the Chinese market.

NOTE 11 - NOTES RECEIVABLE

Notes receivable are summarized as follows:

	September 30, 2011 (Unaudited)	December 31, 2010
Notes receivable from unrelated companies:		
Due March 3, 2011, interest at 6.0% per annum 1	\$ -	\$ 1,205,026
Due March 5, 2011, interest at 6.0% per annum 2	-	423,168
Due April 13, 2011, interest at 9.6% per annum 3	-	1,512,448
Due April 29, 2011, interest at 5.31% per annum 4	-	756,224
Due September 30, 2011, interest at 9.6% per annum 5	-	20,969,123
Due September 30, 2012, interest at 9.6% per annum 6	20,540,160	-
	20,540,160	24,865,989
Bank acceptance notes:		
Bank acceptance notes	-	-
Notes receivable	\$ 20,540,160	\$ 24,865,989

Details of Notes receivable from unrelated parties as of December 31, 2010

Index	Amount (\$)	Counter party	Relationship	Purpose of Loan	Manner of settlement
1	1,205,026	Hangzhou YuanHai Property Co., Ltd.	No relationship beyond loan	Receive interest income	Repaid in cash

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2	423,168	Hangzhou YuanHai Property Co., Ltd.	No relationship beyond loan	Receive interest income	Repaid in cash
3	1,512,448	Yongkang BoTao Trading Co., Ltd.	No relationship beyond loan	Receive interest income	Repaid in cash
4	756,224	JiangXi De'er Chemical Co., Ltd. (*)	No relationship beyond loan	Receive interest income	Repaid in cash
5	20,969,123	Yongkang HuiFeng Guarantee Co., Ltd.	No relationship beyond loan	Receive interest income	Repaid part in cash and renewed the rest

(*) JiangXi De'er Chemical Co., Ltd. is 85% owned by Kandi Investment Group Co. ("KIGC"). KIGC is the guarantor of the Company's bank loan of \$4,234,853 and was also a lender of the note payable of \$134,305 as of December 31, 2010. Also see note 15 and note 16 of Form 10-K, as amended, for fiscal year ended December 31, 2010. KIGC was a major shareholder of Kandi Vehicles but it transferred all its equity in Kandi Vehicles to Continental Development Limited in November 2006. Since then, KIGC has been unrelated to the Company or its affiliates.

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Details of Notes receivable from unrelated parties as of September 30, 2011

Index	Amount (\$)	Counter party	Relationship	Purpose of Loan	Manner of settlement
6	20,540,160	Yongkang HuiFeng Guarantee Co., Ltd.	No relationship beyond loan	Receive interest income	Not due

For the nine months ended September 30, 2011, the interest income generated from the notes receivable issued to third parties was \$1,434,885.

NOTE 12 – LAND USE RIGHTS

Land use rights consist of the following:

	September 30, 2011 (Unaudited)	December 31, 2010
Cost of land use rights	\$ 11,927,984	\$ 11,549,134
Less: Accumulated amortization	(933,980)	(715,682)
Land use rights, net	\$ 10,994,004	\$ 10,833,452

As of September 30, 2011 and December 31, 2010, the net book value of land use rights pledged as collateral for the Company's bank loans was \$4,058,024 and \$3,998,555 respectively. Also see Note 15.

As of September 30, 2011 and December 31, 2010, the net book value of land use rights and plant and equipment pledged as collateral for bank loans borrowed by Zhejiang Mengdeli Electronic Co., Ltd. ("ZMEC"), an unrelated party of the Company was \$6,935,980 and \$4,640,069. Also see Note 19.

It is a common business practice among companies in the region of China where Kandi is located to exchange guarantees for bank debt with no consideration given. It is considered a "favor for favor" business practice and is commonly required by the lending banks as in these cases. ZMEC has provided a guarantee for certain of the Company's bank loans. As of September 30, 2011, ZMEC guaranteed bank loans of the Company for a total of \$12,496,485. In exchange, the Company guaranteed bank loans of ZMEC and allowed ZMEC to pledge the Company's assets. Please see note 14.

The amortization expense for the nine months ended September 30, 2011 and 2010 was \$191,700 and \$186,203 respectively.

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

2011 (three months)	\$63,900
2012	255,600
2013	255,600
2014	255,600

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2015	255,600
Thereafter	9,907,704
Total	\$10,994,004

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NOTE 13 – PLANT AND EQUIPMENT

Plant and equipment consist of the following:

	September 30, 2011 (Unaudited)	December 31, 2010
At cost:		
Buildings	\$13,618,832	\$13,073,777
Machinery and equipment	10,055,798	9,733,241
Office equipment	181,331	153,441
Motor vehicles	243,957	188,277
Moulds	14,830,046	14,307,730
	38,929,964	37,456,466
Less : Accumulated depreciation		
Buildings	\$(1,824,464)	\$(1,437,172)
Machinery and equipment	(7,732,022)	(6,755,599)
Office equipment	(125,567)	(108,034)
Motor vehicles	(163,600)	(129,113)
Moulds	(7,507,018)	(5,114,921)
	(17,352,671)	(13,544,840)
Plant and equipment, net	\$21,577,293	\$23,911,626

As of September 30, 2011 and December 31, 2010, the net book value of plant and equipment pledged as collateral for the bank loans was \$7,154,299 and \$7,002,375, respectively. Also see Note 14.

As of September 30, 2011 and December 31, 2010, the net book value of plant and equipment pledged as collateral for bank loans borrowed by Zhejiang Mengdeli Electronic Co., Ltd. (“ZMEC”), a supplier but unrelated party of the Company was \$4,640,069 and \$4,634,487. Also see Note 19.

Depreciation expense for nine months ended September 30, 2011 and 2010 was \$3,309,659 and \$2,919,152 respectively.

NOTE 14 – SHORT TERM BANK LOANS

Short-term loans are summarized as follows:

	September 30, 2011 (Unaudited)	December 31, 2010
Loans from China Communication Bank-Jinhua Branch		
Monthly interest only payments at 5.84% per annum, due February 4, 2011, guaranteed by Zhejiang Shuguang industrial Co., Ltd. Mr. Hu Xiaoming, and Mr. Yan Guanwei.	\$-	\$756,224

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Monthly interest only payments at 7.87% per annum, due September 19, 2012, guaranteed by Kandi Investment Group Co.	781,030	-
Loans from Commercial Bank-Jiangnan Branch		
Monthly interest only payments at 5.84% per annum, due January 5, 2011, guaranteed by Zhejiang Kangli Metal Manufacturing Company, Mr. Hu Xiaoming, Lv Qingjiang, Lv Qingbo, and Ms. Ling Yueping. and pledged by the assets of Jingdezheng Changzhou Export & Import Company	-	3,024,895
Monthly interest only payments at 5.84% per annum, due October 15, 2011, guaranteed by Mr. Hu Xiaoming, and Ms. Ling Yueping. and pledged by Company's assets. Also see Note 12 and Note 13.	1,562,061	1,512,447

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NOTE 14 - SHORT TERM BANK LOANS (CONTINUED)

Monthly interest only payments at 5.84% per annum, due December 5, 2011, guaranteed by Mr. Hu Xiaoming, and Ms. Ling Yueping, and pledged by Company's asset. Also see Note 12 and Note 13.	781,030	756,224
Monthly interest only payments at 5.81% per annum, due January 3, 2012, guaranteed by Zhejiang Kangli Metal Manufacturing Company, Mr. Hu Xiaoming, Lv Qingjiang, and Ms. Ling Yueping, and pledged by the assets of Jingdezheng De'er Investment Industrial Co. Ltd.	3,124,121	-
Loans from Huaxia Bank		
Monthly interest only payments at 5.73% per annum, due September 20, 2011, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Zhejiang Kangli Metal Manufacturing Company and Kandi Investment Group Co.	-	4,234,853
Monthly interest only payments at 7.22% per annum, due September 23, 2012, secured by the assets of the Company, guaranteed by Zhejiang Kangli Metal Manufacturing Company and Kandi Investment Group Co.	4,373,771	
Loans from China Ever-bright Bank		
Monthly interest only payments at 5.84% per annum, due April 7, 2011, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd.	-	4,537,342
Monthly interest only payments at 5.84% per annum, due October 11, 2011, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd.	4,686,182	4,537,342
Monthly interest only payments at 5.10% per annum, due November 1, 2011, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd.	-	3,024,895
Monthly interest only payments at 5.10% per annum, due September 30, 2011, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd.	-	-

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NOTE 14 - SHORT TERM BANK LOANS (CONTINUED)

	September 30, 2011 (Unaudited)	December 31, 2010
Monthly interest only payments at 6.16% per annum, due October 2, 2011, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd.	4,686,182	-
Interest only payment at 6.71% per annum, due February 15, 2012.	1,343,372	-
Loans from Shanghai Pudong Development Bank		
Monthly interest only payments at 6.10% per annum, due December 28, 2011, secured by the property of Mr. Hu Xiaoming and Ms. Ling Yueping, guaranteed by Nanlong Group Co., Ltd. and Mr. Hu Xiaoming	3,124,121	3,024,895
Loans from Bank of Shanghai		
Monthly interest only payments at 6.1% per annum, due December 8, 2011, guaranteed by Mr. Hu Xiaoming, Zhejiang Kangli Metal Manufacturing Company and Zhejiang Taiping Shengshi Industrial Co., Ltd.	4,686,182	
Loans from China Ever-growing Bank		
Monthly interest only payments at 5.61% per annum, due April 27, 2011, guaranteed by Zhejiang Shuguang industrial Co., Ltd. and Zhejiang Mengdeli Electric Company.	-	3,024,895
Monthly interest only payments at 7.57% per annum, due April 27, 2012, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Zhejiang Shuguang industrial Co., Ltd. and Zhejiang Mengdeli Electric Company.	3,124,121	-
Total		