

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

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**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, 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**

(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 - 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  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 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**

|   | <b>September 30,<br/>2014<br/>(Unaudited)</b> | <b>December 31,<br/>2013</b> |
|---|---|------------------------------|
| <b>CURRENT ASSETS</b>   |   |                              |
| 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                       |
| <b>Total Current Assets</b>   | <b>208,850,377</b>                            | <b>80,011,736</b>            |
| <b>LONG-TERM ASSETS</b>   |   |                              |
| 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                      |
| <b>Total Long-Term Assets</b>   | <b>125,395,134</b>                            | <b>124,294,994</b>           |
| <b>TOTAL ASSETS</b>   | <b>\$ 334,245,511</b>                         | <b>\$ 204,306,730</b>        |

See accompanying notes to condensed consolidated financial statements

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

|   | <b>September<br/>30,<br/>2014<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2013</b> |
|---|---|----------------------------------|
| <b>CURRENT LIABILITIES</b>  |   |                                  |
| 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                       |
| <b>LONG-TERM LIABILITIES</b>  |   |                                  |
| 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                      |
| <b>STOCKHOLDERS EQUITY</b>  |   |                                  |
| Common stock, \$0.001 par value; 100,000,000 shares authorized;<br>46,274,855 and 37,012,904 shares issued and outstanding at September 30,<br>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<br>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<br>September 30, |               | For Nine Months Ended<br>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)   |

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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)**

|  | <b>Nine Months Ended September 30,</b> |                 |
|--|--|-----------------|
|  | <b>2014</b>                            | <b>2013</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |  |                 |
| 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         |
| <b>Changes in operating assets and liabilities:</b>  |  |                 |
| <b>(Increase) Decrease In:</b>   |  |                 |
| 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)                           | -               |
| <b>Increase (Decrease) In:</b>   |  |                 |
| 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   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |  |                 |
| 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.  
AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

|   | <b>Nine Months Ended September 30,</b> |                      |
|---|--|----------------------|
|   | <b>2014</b>                            | <b>2013</b>          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                |  |                      |
| 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           |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>37,699,957</b>                      | <b>1,501,985</b>     |
| 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           |
| <b><u>CASH AND CASH EQUIVALENTS AT END OF PERIOD</u></b>    | <b>\$ 49,500,712</b>                   | <b>\$ 12,448,344</b> |
| <b>SUPPLEMENTARY CASH FLOW INFORMATION</b>                  |  |                      |
| 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.

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

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

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.**  
**AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(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.

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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)

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- (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.



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**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<br>Measurements<br>at Reporting<br>Date Using<br>Quoted Prices<br>in Carrying<br>Value as of<br>September 30,<br>2014 | Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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.

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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>

|                                    | <b>September 30,</b><br><b>2014</b> | <b>December 31,</b><br><b>2013</b> | <b>September 30,</b><br><b>2013</b> |
|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
| 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.

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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      |                         |
|---|--|--|--------------------------|-------------------------|
|   | Nine Months<br>Ended<br>September<br>30,<br>2014 | Nine Months<br>Ended<br>September<br>30,<br>2013 | September<br>30,<br>2014 | December<br>31,<br>2013 |
| <b>Major Customers</b>                        |  |  |                          |                         |
| 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      |                         |
|---|--|--|--------------------------|-------------------------|
|   | Three<br>Months<br>Ended<br>September<br>30,<br>2014 | Three<br>Months<br>Ended<br>September<br>30,<br>2013 | September<br>30,<br>2014 | December<br>31,<br>2013 |
| <b>Major Customers</b>                        |  |  |                          |                         |
| 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<br>September 30, |                | For the nine months ended<br>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:

|   | <b>September<br/>30, 2014<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2013</b> |
|---|---|----------------------------------|
| 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:

|  | <b>September<br/>30, 2014<br/>(Unaudited)</b> | <b>December 31,<br/>2013</b> |
|--|---|------------------------------|
| Notes receivable from unrelated companies:                         |   |                              |
| Due September 30, 2014, interest at 9.6% per annum <sup>1</sup> \$ | 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:

|                                | <b>September<br/>30, 2014<br/>(Unaudited)</b> | <b>December<br/>31, 2013</b> |
|--------------------------------|---|------------------------------|
| 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:

|   | <b>September<br/>30, 2014<br/>(Unaudited)</b> | <b>December 31,<br/>2013</b> |
|---|---|------------------------------|
| 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,<br>2014<br>(Unaudited) | December 31,<br>2013 |
|--|--------------------------------------|----------------------|
| <b>Loans from Jinhua Bank</b>  |                                      |                      |
| 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            |
| <b>Loans from Yongkang Rural Cooperative Bank</b>  |                                      |                      |
| Monthly interest only payments at 0.927% per month, due January 31, 2015, guaranteed by Yongkang Sanli Metal Co., Ltd.   | 812,216                              | 817,795              |
| <b>Loans from China Ever-bright Bank</b>   |                                      |                      |
| 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:

|                                       | <b>September<br/>30,2014<br/>(Unaudited)</b> | <b>December 31,<br/>2013</b> |
|---------------------------------------|--|------------------------------|
| 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                              | \$ -   | \$ -                         |
| <b>Total</b>                          | <b>\$ 12,995,452</b>                         | <b>\$ 16,683,023</b>         |

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<br>rate | Interest<br>record<br>date | Interest<br>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:

|                                  | <b>For the Nine Months Ended<br/>September 30,<br/>(Unaudited)</b> |             |
|----------------------------------|--|-------------|
|                                  | <b>2014</b>  | <b>2013</b> |
| 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:

|                              | <b>For the Nine Months Ended<br/>September 30,<br/>(Unaudited)</b> |             |
|------------------------------|--|-------------|
|                              | <b>2014</b>  | <b>2013</b> |
| 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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|   | <b>September<br/>30, 2014<br/>(Unaudited)</b> | <b>December<br/>31, 2013</b> |
|---|---|------------------------------|
| 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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|                                   |    | <b>2014</b> |    | <b>2013</b> |
|-----------------------------------|----|-------------|----|-------------|
| 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<br>Shares | Weighted<br>Average<br>Exercise<br>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 common 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<br>useful<br>life as of<br>September<br>30,<br><b>2014</b> | September<br>30, 2014<br>(Unaudited) | December<br>31, 2013 |
|--|--|--------------------------------------|----------------------|
| <b>Gross carrying amount:</b>          |  |                                      |                      |
| Trade name                             | 7.25 years   | \$ 492,235                           | 492,235              |
| Customer relations                     | 7.25 years   | 304,086                              | 304,086              |
|  |  | 796,321                              | 796,321              |
| <b>Less : Accumulated amortization</b> |  |                                      |                      |
| Trade name                             |  | \$ (122,636)                         | (84,576)             |
| Customer relations                     |  | (75,760)                             | (52,249)             |
|  |  | (198,396)                            | (136,825)            |
| <b>Intangible assets, net</b>          |  | <b>\$ 597,924</b>                    | <b>659,496</b>       |

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           |
| <b>Total</b>        | <b>\$ 597,924</b> |

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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:

|  | <b>Three months ended<br/>September 30,</b> |              |
|--|---|--------------|
|  | <b>2014</b>                                 | <b>2013</b>  |
| <b>Condensed income statement information:</b> |   |              |
| 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) |

|  | <b>Nine months ended September<br/>30,</b> |              |
|--|--|--------------|
|  | <b>2014</b>                                | <b>2013</b>  |
| <b>Condensed income statement information:</b> |  |              |
| 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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|                                      | <b>September<br/>30, 2014</b> | <b>December 31,<br/>2013</b> |
|--------------------------------------|-------------------------------|------------------------------|
| 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:

|  | <b>Nine Months Ended September<br/>30,</b> |               |
|--|--|---------------|
|  | <b>2014</b>                                | <b>2013</b>   |
| 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 |

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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. These EV parts were used in manufacturing of pure products by the JV 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:

|                                    | <b>September<br/>30,<br/>2014</b> | <b>December<br/>31,<br/>2013</b> |
|------------------------------------|-----------------------------------|----------------------------------|
|                                    | <b>(Unaudited)</b>                |                                  |
| Accounts receivable                | \$ 13,982,830                     | \$ 31,370,862                    |
| Less: Provision for doubtful debts | -                                 | -                                |
| Accounts receivable, net           | \$ 13,982,830                     | \$ 31,370,862                    |

During the nine months ended September 30, 2014 and 2013, the Company sold products to Kandi USA Inc., a company that operates under the trade name of Eliteway Motorsports (Eliteway), amounting to \$2,784,596 and \$5,227,616, respectively. During the three months ended September 30, 2014 and 2013, the Company sold products to Kandi USA Inc., amounting to \$597,481 and \$2,150,564, respectively. As of September 30, 2014 and December 31, 2013, outstanding receivable due from Eliteway was \$955,302 and \$ 2,800,958, respectively.

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Mr. Hu Wangyuan is the sole shareholder and officer of Eliteway, which serves as a U.S. importer of the Company's products. Mr. Hu Wangyuan is the adult son of the Company's Chairman and Chief Executive Officer, Mr. Hu Xiaoming. As of and for the nine months ended September 30, 2014, Eliteway and Mr. Hu Wangyuan were financially independent from the Company. The transactions between the Company and Eliteway were carried out at arm's length without preferential terms compared with other customers that placed orders comparable in size or volume.

**NOTE 23 COMMITMENTS AND CONTINGENCIES**

**Guarantees and Pledged collateral for third party bank loans**

As of September 30, 2014, the Company provided guarantees for the following third parties:

(1) Guarantees for bank loans

| Guarantee provided to                        | Amount        |
|--|---------------|
| Zhejiang Kangli Metal Manufacturing Company. | \$ 4,873,294  |
| Zhejiang Shuguang industrial Co., Ltd.       | 4,873,294     |
| Nanlong Group Co., Ltd.                      | 9,746,589     |
| Total  | \$ 19,493,177 |

On December 27, 2013, the Company entered into a guarantee contract to serve as the guarantor for the bank loan borrowed from Shanghai Bank Hangzhou branch in the amount of \$4,873,294 by Zhejiang Kangli Metal Manufacturing Company ( ZKMMC ) for the period from December 27, 2013 to December 27, 2014. ZKMMC is not related to the Company. Under this guarantee contract, the Company agrees to perform all obligations of ZKMMC under the loan contract if ZKMMC fails to perform its obligations as set forth therein.

On March 4, 2014, the Company entered into a guarantee contract to serve as the guarantor for the bank loan borrowed from PingAn Bank in the amount of \$4,873,294 by Zhejiang Shuguang industrial Co., Ltd. ( ZSICL ) for the period from March 4, 2014 to March 4, 2015. ZSICL is not related to the Company. Under this guarantee contract, the Company agrees to perform all obligations of ZSICL under the loan contracts if ZSICL fails to perform its obligations as set forth therein.

On March 15, 2013 and December 27, 2013, the Company entered into two guarantee contracts to serve as the guarantor for the bank loans borrowed from Shanghai Pudong Development Bank Jinhua Branch and Shanghai Bank Hangzhou branch in the amount of \$3,248,863 and \$6,497,726, respectively, by Nanlong Group Co., Ltd. ( NGCL ) for the period from March 15, 2013 to March 15, 2016, and December 27, 2013 to December 27, 2014, respectively. NGCL is not related to the Company. Under these guarantee contracts, the Company agrees to perform all obligations of NGCL under the loan contracts if NGCL fails to perform its obligations as set forth therein.



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(2) Pledged collateral for a third party's bank loans

As of September 30, 2014 and December 31, 2013, none of the Company's land use rights or plant and equipment were pledged as collateral securing bank loans to third parties.

**NOTE 24 SEGMENT REPORTING**

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

The following table sets forth revenues by geographic area:

|                         | <b>Nine Months Ended September 30,</b> |                       |                      |                       |
|-------------------------|--|-----------------------|----------------------|-----------------------|
|                         | <b>2014</b>                            |                       | <b>2013</b>          |                       |
|                         | Sales<br>Revenue                       | Long Lived<br>Assets  | Sales<br>Revenue     | Long Lived<br>Assets  |
| North America           | \$ 2,703,468                           | \$ -                  | \$ 4,388,519         | \$ -                  |
| Europe and other region | 3,302,120                              | -                     | 1,010,655            | -                     |
| China                   | 111,332,763                            | 125,395,134           | 38,576,289           | 127,580,275           |
| <b>Total</b>            | <b>\$ 117,338,351</b>                  | <b>\$ 125,395,134</b> | <b>\$ 43,975,463</b> | <b>\$ 127,580,275</b> |

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**Three Months Ended September 30,**

|                         | <b>2014</b>          |                       | <b>2013</b>          |                       |
|-------------------------|----------------------|-----------------------|----------------------|-----------------------|
|                         | Sales<br>Revenue     | Long Lived<br>Assets  | Sales<br>Revenue     | Long Lived<br>Assets  |
| North America           | \$ 580,154           | \$ -                  | \$ 1,664,986         | \$ -                  |
| Europe and other region | 2,070,438            | -                     | 393,227              | -                     |
| China                   | 41,556,400           | 125,395,134           | 15,087,299           | 127,580,275           |
| <b>Total</b>            | <b>\$ 44,206,992</b> | <b>\$ 125,395,134</b> | <b>\$ 17,145,512</b> | <b>\$ 127,580,275</b> |

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

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

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

Forward-looking statements are only predictions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. All of our forward-looking information is subject to risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors and the timing of any of those risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2013 and those set forth from time to time in our other filings with the Securities and Exchange Commission ( SEC ). These documents are available on the SEC's Electronic Data Gathering and Analysis Retrieval System at <http://www.sec.gov>.

### Critical Accounting Policies and Estimates

This section should be read together with the Summary of Significant Accounting Policies in the attached condensed consolidated financial statements included in this report.

#### *Policy affecting options and warrants*

Our 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. Our expected volatility assumption is based on the historical volatility of our 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 recognition is based on awards expected to vest. 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.

Our 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. Our expected volatility assumption is based on the historical volatility of our 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 classified as liabilities on the balance sheet, are measured at fair value on each reporting date, with decreases in fair value recognized in earnings and increases in fair values 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. Our expected volatility assumption is based on the historical volatility of our 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.

*Estimates affecting accounts receivable and inventories*

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect our reporting of assets and liabilities (and contingent assets and liabilities). These estimates are particularly significant where they affect the reported net realizable value of our accounts receivable and inventories.

Accounts receivable are recognized and carried at net realizable value. An allowance for doubtful accounts is recorded in the period when a loss is probable based on an assessment of specific factors, such as troubled collection, historical experience, accounts aging, ongoing business relations 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. As of September 30, 2014 and December 31, 2013, we recorded no allowance for doubtful accounts. This determination was made per our management's judgment, which was based on their best knowledge.

Inventory is stated at the lower of cost, determined on a weighted average basis, or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Adjustments to reduce the cost of inventory to its net realizable value are made, if required, for estimated excess, obsolescence, or impaired balances. When inventories are sold, their carrying amount is charged to expense in the year in which the revenue is recognized.

Write-downs for declines in net realizable value or for losses of inventories are recognized as an expense in the year the impairment or loss occurs.

Although we believe that there is little likelihood that actual results will differ materially from current estimates, if customer demand for our products decreases significantly in the near future, or if the financial condition of our customers deteriorates in the near future, we could realize significant write downs for slow-moving inventories or uncollectible accounts receivable.

#### *Revenue Recognition*

Our revenue recognition policy plays a key role in our consolidated financial statements. Revenues represent the invoiced value of goods sold, recognized upon the shipment of goods to customers, and 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.

The revenue recognition policies for our legacy products, including all-terrain vehicles ("ATVs"), go-karts and electric vehicle ("EV") products, are the same: When the products are delivered, the associated risk of loss is deemed transferred, and at that time we recognize revenue.

#### *Warranty Liability*

Most of our non-EV products (the "Legacy Products") are exported out of China to foreign countries that have legal and regulatory requirements with which we are not familiar with. Development of warranty policies for our Legacy Products in each of these countries would be virtually impossible and prohibitively expensive. Therefore, we provide price incentives and free parts to our customers and in exchange, our customers establish appropriate warranty policies and assume warranty responsibilities. Consequently, warranty issues are taken into consideration during the price negotiation for our products. The free parts are delivered along with the products, and when products are sold, the related parts are recorded as cost of goods sold. Due to the reliable quality of our products, we have been able to maintain this warranty policy and we have not had any product liabilities attributed to the quality of our products.

For the EV products that we sell in China, there is a three-year or 50,000 kilometer manufacturer warranty. This warranty affects us through our participation and investment in the JV Company, which manufactures the EVs.

**Results of Operations***Comparison of Three Months Ended September 30, 2014 and 2013*

The following table sets forth the amounts and percentage relationship to revenue of certain items in our condensed consolidated statements of income and comprehensive income for the three months ended September 30, 2014 and 2013.

|  | <b>For Three<br/>Months<br/>Ended<br/><u>9/30/2014</u></b> | <b>% Of<br/><u>Revenue</u></b> | <b>For Three<br/>Months<br/>Ended<br/><u>9/30/2013</u></b> | <b>% Of<br/><u>Revenue</u></b> | <b>Change In<br/><u>Amount</u></b> | <b>Change<br/><u>In %</u></b> |
|--|--|--------------------------------|--|--------------------------------|------------------------------------|-------------------------------|
| <b>REVENUES, NET</b>   | \$ 44,206,992  | 100.0%                         | \$ 17,145,512  | 100.0%                         | \$ 27,061,480                      | 157.8%                        |
| <b>COST OF GOODS SOLD</b>  | (38,698,452)   | (87.5%)                        | (13,032,352)   | (76.0%)                        | (25,666,100)                       | 196.9%                        |
| <b>GROSS PROFIT</b>  | 5,508,540  | 12.5%                          | 4,113,160  | 24.0%                          | 1,395,380                          | 33.9%                         |
| Research and development   | (391,097)  | (0.9%)                         | (500,864)  | (2.9%)                         | 109,767                            | (21.9%)                       |
| Selling and marketing  | (432,365)  | (1.0%)                         | (102,380)  | (0.6%)                         | (329,985)                          | 322.3%                        |
| General and administrative   | (2,076,749)  | (4.7%)                         | (2,893,935)  | (16.9%)                        | 817,186                            | (28.2%)                       |
| <b>INCOME FROM<br/>OPERATIONS</b>  | 2,608,329  | 5.9%                           | 615,981  | 3.6%                           | 1,992,348                          | 323.4%                        |
| Interest (expense), net  | (711,119)  | (1.6%)                         | (1,184,282)  | (6.9%)                         | 473,163                            | (40.0%)                       |
| Change in fair value of<br>financial instruments                               | 10,187,277   | 23.0%                          | (6,864,624)  | (40.0%)                        | 17,051,901                         | (248.4%)                      |
| Government grants  | 63,584   | 0.1%                           | 11,077   | 0.1%                           | 52,507                             | 474.0%                        |
| Share of income (loss) in<br>associated companies                              | 38,702   | 0.1%                           | (15,787)   | (0.1%)                         | 54,489                             | (345.2%)                      |
| Share of profit (loss) after tax<br>of JV Company                              | 2,038,388  | 4.6%                           | (109,641)  | (0.6%)                         | 2,148,029                          | (1959.1%)                     |
| Other income, net  | 21,814   | 0.0%                           | 40,647   | 0.2%                           | (18,833)                           | (46.3%)                       |
| <b>INCOME (LOSS) FROM<br/>CONTINUING<br/>OPERATION BEFORE<br/>INCOME TAXES</b> | 14,246,975   | 32.2%                          | (7,506,629)  | (43.8%)                        | 21,753,604                         | (289.8%)                      |
| <b>INCOME TAX EXPENSE</b>  | (713,273)  | (1.6%)                         | (257,222)  | (1.5%)                         | (456,051)                          | 177.3%                        |

|  |            |       |             |         |            |          |
|--|------------|-------|-------------|---------|------------|----------|
| <b>INCOME (LOSS) FROM CONTINUING OPERATION</b> | 13,533,702 | 30.6% | (7,763,851) | (45.3%) | 21,297,553 | (274.3%) |
|--|------------|-------|-------------|---------|------------|----------|

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**(a) Revenue**

For the three months ended September 30, 2014, our revenue was \$44,206,992 compared to \$17,145,512 for the three months ended September 30, 2013, an increase of \$27,061,480 or 157.8% . The increase in revenue was mainly due to the increased EV parts sales during the third quarter of 2014.

**EV Parts**

Among our total revenues during the three months ended September 30, 2014, approximately \$35,805,450, or 81.0%, resulted from the sale of EV parts. We started the EV parts business in the first quarter of 2014, and our revenue of EV parts increased \$18,581,219 or 107.9% in the third quarter as compared to the second quarter of 2014. Our EV parts sales primarily consisted of the sales of battery packs, body parts, EV drive motors, EV controllers, air conditioning units and other auto parts to the JV Company for manufacturing of EV products. Of the total EV parts revenue during the three months ended September 30, 2014, approximately \$30,404,499, or 84.9%, resulted from the sale of battery packs.

**EV Products**

Among our total revenues during the three months ended September 30, 2014, approximately \$741,109, or 1.7%, resulted from the sale of EV products. The EV products revenue decreased \$2,109,392, or 74.0% in the quarter ended September 30, 2014 as compared to the corresponding period last year. Under our agreement with our joint venture partner, Shanghai Maple Guorun Automobile Co., Ltd., a 99%-owned subsidiary of Geely Automobile Holdings Ltd. in March 2013, our EV products manufacturing business will be gradually transferred to the JV Company. We will be primarily responsible for supplying the JV Company with EV parts in the future and the JV Company will be primarily responsible for the production of the EV products.

**ATV, Go-Karts and OEM - EV**

ATV and Go-Kart revenues for the three months ended September 30, 2014 decreased 34.7% and 48.5%, respectively, year over year due to our realignment of our product mix for more efficient use of our resources to grow our business in the fast-growing EV market in China. The OEM business that was added during the second quarter of 2014 mainly to assemble EV products for the JV Company accounted \$ 271,635, or 0.6% of total revenue, for the third quarter.

The following table summarizes our revenues as well as the number of units sold by product types for the three months ended September 30, 2014 and 2013:



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|                               | Three Months Ended September 30, |               | 2013   |               |
|-------------------------------|----------------------------------|---------------|--------|---------------|
|                               | 2014                             |               | 2013   |               |
|                               | Unit                             | Sales         | Unit   | Sales         |
| EV parts                      | 29,142                           | \$ 35,805,450 | -      | -             |
| EV products                   | 135                              | 741,109       | 494    | \$ 2,850,501  |
| Go-Kart                       | 5,117                            | 5,104,327     | 10,296 | 9,909,296     |
| All-terrain vehicles ( ATVs ) | 4,070                            | 2,284,471     | 5,824  | 3,500,309     |
| Auto generator                | -                                | -             | 8,225  | 276,280       |
| Three wheeled motorcycle      | -                                | -             | 58     | 146,736       |
| OEM - EV                      | 579                              | 271,635       | -      | -             |
| Utility vehicles ( UTVs )     | -                                | -             | 100    | 287,067       |
| Refitted car                  | -                                | -             | 6      | 175,323       |
| Total                         | 39,043                           | \$ 44,206,992 | 25,003 | \$ 17,145,512 |

The following table shows the breakdown of our revenues from our customers during the three months ended September 30, 2014 and 2013 by geographical markets based on the location of the customers:

|                        | Three Months Ended September 30, |            | 2013          |            |
|------------------------|----------------------------------|------------|---------------|------------|
|                        | 2014                             |            | 2013          |            |
|                        | Sales                            | Percentage | Sales         | Percentage |
| North America          | \$ 580,154                       | 1%         | \$ 1,664,986  | 10%        |
| China                  | 41,556,400                       | 94%        | 15,087,299    | 88%        |
| Europe & other regions | 2,070,438                        | 5%         | 393,227       | 2%         |
| Total                  | \$ 44,206,992                    | 100%       | \$ 17,145,512 | 100%       |

**(b) Cost of goods sold**

Cost of goods sold during the three months ended September 30, 2014 was \$38,698,452, representing an increase of \$25,666,100, or 196.9%, compared to \$13,032,352 for three months ended September 30, 2013. This increase was mainly due to the increase in corresponding sales. However, the increase in cost of goods sold as a percentage of revenue outpaced the growth of our revenues, which was largely due to relatively less profitable raw material purchases in our newly-added EV parts product line. The sale of EV parts accounted for 81.0% of total revenue for the three months ended September 30, 2014. As a result, cost of goods sold for our EV parts product line comprised the majority, or 83.7%, of the total cost of goods sold for the three months ended September 30, 2014. The cost of goods sold of our battery sales accounted for 71.3% of total cost of goods sold.

For the three months ended September 30, 2014, excluding the battery business mentioned above, our cost of raw materials decreased 1.52% compared to the sales increase year over year.

Excluding the battery business mentioned above, total wages and salaries for the three months ended September 30, 2014, increased 3.66% compared to the sales increase year over year.

Excluding the battery business mentioned above, our other overhead costs for the three months ended September 30, 2014 increased 1.84% compared to the sales increase year over year.

For the three months ended September 30, 2014, raw material costs comprised approximately 94.3% of total cost of goods sold, labor costs comprised approximately 1.9% of total cost of goods sold, and manufacturing overhead comprised approximately 3.8% of the total cost of goods sold. For the three months ended September 30, 2013, raw material costs comprised approximately 85.7% of total cost of goods sold, labor costs comprised approximately 2.5% of total cost of goods sold, and manufacturing overhead comprised approximately 11.8% of the total cost of goods sold.

**(c) Gross profit**

Gross profit for the third quarter of 2014 increased 33.9% to \$5,508,540, compared to \$4,113,160 for the same period last year. This was primarily attributable to our significantly increased revenue during the quarter. Our gross margin decreased to 12.5% compared to 24.0% for the same period of 2013. The decreased gross margin was mainly because the majority of our revenue growth during the third quarter came from the relatively less profitable EV parts product line, which accounted for 81.0% of total revenue for the quarter and had gross margin of 9.6% compared to gross margin of 12.5% for the company as a whole.

**(d) Selling and distribution expenses**

Selling and distribution expenses were \$432,365 for the three months ended September 30, 2014, compared to \$102,380 for the same period in 2013, an increase of \$329,985 or 322.3% . This increase was primarily attributable to a charge of \$264,108 for repair and maintenance warranty during the third quarter of 2014 as discussed above. Excluding this charge, the selling and distribution expenses for the three months ended September 30, 2014 increased \$65,877, or 64.3%, as compared to the same period of last year, which was largely due to increased shipping and handling expenses during the quarter.

**(e) General and administrative expenses**

General and administrative expenses were \$2,076,749 for the three months ended September 30, 2014, compared to \$2,893,935 for the same period in 2013, a decrease of \$817,186 or 28.2% . For the three months ended September 30, 2014, general and administrative expenses included \$2,024,550 in expenses for common stock awards to employees and consultants, compared to \$28,000 for the same period in 2013. Excluding stock award costs, our net general and administrative expenses for the three months ended September 30, 2014 were \$52,199, a decrease of \$2,813,736 or 98.2%, from \$2,865,935 for the same period of 2013. The decrease was primarily because the costs for our registered direct offering consummated during this third quarter were directly deducted from its gross proceeds, while the costs related to our capital raises during the corresponding period last year were included in our general administrative expenses.

**(f) Research and development**

Research and development expenses were \$391,097 for the three months ended September 30, 2014, compared to \$500,864 from the same period in 2013, a decrease of \$109,767 or 21.9% . This decrease was primarily due to the certain machinery were used in our R&D process in the past few quarters while being used to regular operation during the current period.

**(g) Government grants**

Government grants totaled \$63,584 for the three months ended September 30, 2014, an increase of \$52,507, or 474.0%, from \$11,077 in the corresponding period in 2013. The increases were largely due to the subsidies we received from the Chinese government for promoting local business.

**(h) Net interest (income) expense**

Net interest expense was \$711,119 for the three months ended September 30, 2014, compared to \$1,184,282 for the same period last year, a decrease of \$473,163 or 40.0% . This change was primarily attributable to an increase in interest income earned on loans made to third parties. For the three months ended September 30, 2014, we recorded interest income of \$220,911, which included \$201,528 earned on loans made to third parties and \$19,383 earned on bank deposits. For the three months ended September 30, 2014, we recorded interest expense of \$932,030, which included bank loan interest of \$558,805 and bond interest of \$373,225.

**(i) Change in fair value of financial instruments**

For the three months ended September 30, 2014, the gain related to changes in the fair value of derivative liability relating to the warrants issued to investors and placement agents was \$10,187,277, compared to a loss of \$6,864,624 for the same period of last year, a change of \$17,051,901 or 248.4% . The gain on the changes in the fair value of derivative liability is due to the decrease of the fair value price of the derivative which was primarily attributable to two factors. Firstly, it was caused by the decrease of the Company s stock price of the common stock underlying the warrants issued on September 4, 2014, which decreased from \$17.13 on the issuance date to \$12.99 on September 30, 2014. Secondly, it was due to the passage of remaining life of the existing outstanding warrants (excluding the warrants issued in September 2014), especially a significant portion of the warrants will expire in January 2015.

**(j) Share of (loss) of associated company**

Investment gains were \$38,702 for the three months ended September 30, 2014, compared to a loss of \$15,787 for the corresponding period in 2013, a change of \$54,489, or 345.2%, primarily due to the liquidation of our investment in Jinhua Service as this entity was dissolved in the third quarter of 2014. For the three months ended September 30, 2014 and 2013, these gains or losses were attributable to our 30% equity interest investment in Jinhua Service.

**(k) Share of profit (loss) after tax of the JV Company**

For the three months ended September 30, 2014, the JV Company s net sales was \$46,847,556, gross income improved to \$7,025,415, and net income increased to \$4,398,828.

For the three-month period ended September 30, 2014, based on equity method of accounting we recorded equity income of \$2,199,414, or 50% of the net profit of \$4,398,828 of the JV Company due to our 50% ownership interest in the JV Company. After eliminating intra-entity profits and losses, our share of the after tax profit of the JV Company was \$2,038,388 for the three months ended September 30, 2014, compared to a loss of \$109,640 for the same period of last year, an increase in income of \$2,148,029 or 1,959.1% .

During the three months ended September 30, 2014, a total of 1,950 units of EV products were sold by the JV Company. According to the public Notice No. 54 issued by China's Ministry of Industry and Information Technology and State Administration of Taxation, three of Kandi's pure EV models were chosen to be on the first approved list of New Energy Vehicles to qualify for a purchase tax exemption at the amount of 10% of the vehicle's total purchase price, effective September 1, 2014 for three years. In anticipation of such an incentive policy, a number of customers had postponed their purchases until after September 1, 2014 to enjoy the tax exemption benefits, which negatively impacted the JV Company's sales of EV products during this July and August.

**(l) Other income, net**

Net other income was \$ 21,814 for the three months ended September 30, 2014, compared to \$40,647 for the same period of last year, a decrease of \$18,833 or 46.3% .

**(m) Net income from continuing operation**

Net income was \$ 13,533,702 for the three months ended September 30, 2014, compared to net loss of \$ 7,763,851 for the same period in 2013, a change of \$21,297,553 or 274.3% . The increase in net income was primarily attributable to increased revenue and gross profits, and the gain from the change in the fair value of derivative securities.

Excluding (i) the effects of stock award expenses, which were \$2,024,550 and \$28,000 for the three months ended September 30, 2014 and 2013, respectively, and (ii) the change of the fair value of financial derivatives, which was an income of \$10,187,277 and an expense of \$6,864,624 for the three months ended September 30, 2014 and 2013, respectively, our net income (non-GAAP) was \$5,370,975 for the three months ended September 30, 2014 as compared to a net loss (non-GAAP) of \$871,227 (non-GAAP) for the same period of 2013, an increase of \$6,242,202. This increase in net income (non-GAAP) was primarily attributable to the increase of revenue and gross profits during the three-month period.

We make reference to certain non-GAAP financial measure, i.e., the adjusted net income. Management believes that such adjusted financial result is useful to investors in evaluating our operating performance because it presents a meaningful measure of corporate performance. See the non-GAAP reconciliation table below. Any non-GAAP measures should not be considered as a substitute for, and should only be read in conjunction with measures of financial performance prepared in accordance with GAAP.

**Three Months Ended  
September 30**

|   | 2014          |    | 2013        |
|---|---------------|----|-------------|
| GAAP net income (loss) from continuing operations     | \$ 13,533,702 | \$ | (7,763,851) |
| Stock award expenses                                  | 2,024,550     |    | 28,000      |
| Change of the fair value of financial derivatives     | (10,187,277)  |    | 6,864,624   |
| Non-GAAP net income (loss) from continuing operations | 5,370,975     |    | (871,227)   |

*Comparison of Nine Months Ended September 30, 2014 and 2013*

The following table sets forth the amounts and percentage relationship to revenue of certain items in our condensed consolidated statements of income and comprehensive income for the nine months ended September 30, 2014 and 2013.

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|  | <b>For Nine<br/>Months<br/>Ended<br/>9/30/2014</b> | <b>% Of<br/>Revenue</b> | <b>For Nine<br/>Months<br/>Ended<br/>9/30/2013</b> | <b>% Of<br/>Revenue</b> | <b>Change In<br/>Amount</b> | <b>Change<br/>In %</b> |
|--|--|-------------------------|--|-------------------------|-----------------------------|------------------------|
| <b>REVENUES, NET</b>   | \$ 117,338,351                                     | 100.0%                  | \$ 43,975,463                                      | 100.0%                  | \$ 73,362,888               | 166.8%                 |
| <b>COST OF GOODS SOLD</b>  | (99,748,314)                                       | (85.0%)                 | (33,673,048)                                       | (76.6%)                 | (66,075,266)                | 196.2%                 |
| <b>GROSS PROFIT</b>  | 17,590,037   | 15.0%                   | 10,302,415   | 23.4%                   | 7,287,622                   | 70.7%                  |
| Research and development   | (2,535,027)  | (2.2%)                  | (1,863,020)  | (4.2%)                  | (672,007)                   | 36.1%                  |
| Selling and marketing  | (939,516)  | (0.8%)                  | (263,414)  | (0.6%)                  | (676,102)                   | 256.7%                 |
| General and administrative   | (11,720,693)                                       | (10.0%)                 | (4,826,622)  | (11.0%)                 | (6,894,071)                 | 142.8%                 |
| <b>INCOME FROM<br/>OPERATIONS</b>  | 2,394,801  | 2.0%                    | 3,349,359  | 7.6%                    | (954,558)                   | (28.5%)                |
| Interest (expense), net  | (1,397,294)  | (1.2%)                  | (2,472,377)  | (5.6%)                  | 1,075,083                   | (43.5%)                |
| Change in fair value of<br>financial instruments                               | 6,814,675  | 5.8%                    | (6,956,963)  | (15.8%)                 | 13,771,638                  | (198.0%)               |
| Government grants  | 217,284  | 0.2%                    | 60,884   | 0.1%                    | 156,400                     | 256.9%                 |
| Share of (loss) in associated<br>companies                                     | (54,290)   | 0.0%                    | (45,327)   | (0.1%)                  | (8,963)                     | 19.8%                  |
| Share of profit after tax of JV  | 3,757,218  | 3.2%                    | (120,017)  | (0.3%)                  | 3,877,235                   | (3230.6%)              |
| Other income, net  | 141,641  | 0.1%                    | 217,160  | 0.5%                    | (75,519)                    | (34.8%)                |
| <b>INCOME (LOSS) FROM<br/>CONTINUING<br/>OPERATION BEFORE<br/>INCOME TAXES</b> | 11,874,035   | 10.1%                   | (5,967,281)  | (13.6%)                 | 17,841,316                  | (299.0%)               |
| <b>INCOME TAX EXPENSE</b>  | (1,269,408)  | (1.1%)                  | (502,123)  | (1.1%)                  | (767,285)                   | 152.8%                 |
| <b>INCOME (LOSS) FROM<br/>CONTINUING<br/>OPERATION</b>                         | \$ 10,604,627                                      | 9.0%                    | \$ (6,469,404)                                     | (14.7%)                 | \$ 17,074,031               | (263.9%)               |

**(a) Revenue**

For the nine months ended September 30, 2014, we had revenues of \$117,338,351 as compared to revenues of \$43,975,463 for the nine months ended September 30, 2013, an increase of \$73,362,888 or 166.8% . For the nine months ended September 30, 2014 and 2013, 95% and 88%, respectively, of our revenues were derived from the sales of our products in the People's Republic of China (the "PRC").



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The following table summarizes our revenues as well as the number of units sold by product types for the nine months ended September 30, 2014 and 2013:

|                                  | Nine Months Ended September 30, |                |        |               |
|----------------------------------|---------------------------------|----------------|--------|---------------|
|                                  | 2014                            |                | 2013   |               |
|                                  | Unit                            | Sales          | Unit   | Sales         |
| EV parts                         | 76,626                          | \$ 78,044,020  | -      | -             |
| EV products                      | 1,666                           | 22,358,409     | 1,126  | \$ 6,619,011  |
| Go-Kart                          | 10,727                          | 10,183,331     | 28,707 | 25,538,290    |
| All-terrain vehicles<br>( ATVs ) | 10,301                          | 6,266,748      | 14,304 | 7,772,598     |
| Auto generator                   | 1,664                           | 57,660         | 43,949 | 1,459,807     |
| Three wheeled motorcycle         | 2                               | 1,018          | 237    | 380,748       |
| OEM - EV                         | 899                             | 427,165        | -      | -             |
| Utility vehicles ( UTVs )        | -                               | -              | 440    | 1,150,885     |
| Refitted car                     | -                               | -              | 39     | 1,054,124     |
| Total                            | 101,885                         | \$ 117,338,351 | 8,802  | \$ 43,975,463 |
| EV Parts                         |                                 |                |        |               |

During the nine months ended September 30, 2014, our revenues from the sale of EV parts were \$78,044,020. We started the EV parts business in the first quarter of 2014, and our revenue for the nine months ended September 30, 2014 primarily consisted of the sales of battery packs, body parts, EV drive motors, EV controllers, air conditioning units and other auto parts to the JV Company for manufacturing of EV products. Of the total EV parts sales to the JV Company for the nine months ended September 30, 2014, approximately 78% of the sales were related to the sales of battery packs because the auto industry is highly regulated in China and we hold the necessary production license to manufacture the battery packs exclusively used in Kandi brand name s EVs manufactured by the JV Company. We are primarily responsible for supplying the JV Company with EV parts and the JV Company is primarily responsible for producing EV products.

#### EV Products

We continued to sell certain EV products during the first nine months of 2014. Our revenues from the sale of EV products increased by \$15,739,398 or 237.8% from \$6,619,011 for the nine months ended September 30, 2013 to \$22,358,409 for the nine months ended September 30, 2014, representing a 48.0% increase in unit sales and a 128.3% increase in the average unit price. Of the total sales of EV products for the nine months ended September 30, 2014, approximately \$21,007,072, or 94%, was sold to Shanghai Maple Auto Co., Ltd., an unaffiliated company that holds the vehicle production rights in the PRC that permit it to sell the products to the end customers. The increased sales of EV products were mainly driven by the demand by Hangzhou Public EV Sharing System (the Car-Share Project ) and group long-term lease project. The group long-term lease project is a lease model that uses enterprise, community or village as a lease unit and each unit leases a minimum of 100 EVs with a group lease term at a minimum of three years.



### Go-Karts

During the nine months ended September 30, 2014, our revenues from the sale of go-karts declined by \$15,354,959, or 60.1%, primarily as a result of a 62.6% decrease in unit sales as compared to the same period of last year. However, the decline of unit sales was partially offset by a 6.7% increase in the average unit price during the first nine months of 2014. The decrease in go-kart sales was primarily due to the realignment of our product mix for more efficient use of resources to capture more sales opportunities in the fast-growing EV market in China.

### ATV

During the nine months ended September 30, 2014, our revenues from the sale of ATVs decreased by \$1,505,850, or 19.4%, as a result of a 28.0% decrease in unit sales that was offset in part by a 12.0% increase in the average unit price compared to the same period of 2013. The decrease in revenue was primarily attributable to our continued efforts to optimize our product offering and focus our efforts on the EV market in China. The average unit price increased as more high-end and middle-end products were sold during this reporting period.

### Auto Generators

During the nine months ended September 30, 2014, our sales of auto generators decreased by \$1,402,147, or 96.1%, as a result of a 96.2% decrease in unit sales that was partially offset by a 4.3% increase in the average unit price compared to the same period of last year. The decrease in revenue was primarily due to the realignment of Yongkang Scrou's product offering to shift focus to the manufacturing of automobile motors, air-conditioning systems, controllers, and accelerator pedals for EVs.

### Motorcycles

During the nine months ended September 30, 2014, our revenues from the sale of three-wheeled motorcycles declined by \$379,730 or 99.7%, as a result of a 99.2% decrease in unit sales and a 68.3% decrease in the average unit price compared to the same period of last year. The decrease was primarily because we adjusted our product offering and focused more efforts on increasing EV demand in the China auto market. We expect to continue to phase out our sales of motorcycles in the future.

### OEM EV

During the nine months ended September 30, 2014, our revenues from our OEM business were \$427,165. We started our OEM business in the second quarter of 2014, and our sales for the nine months ended September 30, 2014 were primarily derived from assembling EV products for Kandi Jinhua, a wholly-owned subsidiary of the JV Company. Indirectly through our 50% ownership interest in the JV Company, we have a 50% economic interest in Kandi Jinhua.

## UTV

During the nine months ended September 30, 2014, our utility vehicles ( UTVs ) revenue was nil. This is mainly due to our continued efforts to optimize our product offering and focused our efforts on increasing EV demand in the China auto market. Therefore, we stopped manufacturing UTV products.

## Refitted Car

During the nine months ended September 30, 2014, we did not record any revenue from this business line as we discontinued manufacturing this product in the third quarter of 2013 to focus our efforts on the China EV auto market.

The following table shows the breakdown of our revenues from our customers during the nine months ended September 30, 2014 and 2013 by geographical markets based on the location of the customer:

|                       | Nine Months Ended September 30, |            |               |            |
|-----------------------|---------------------------------|------------|---------------|------------|
|                       | 2014                            |            | 2013          |            |
|                       | Sales                           | Percentage | Sales         | Percentage |
| North America         | \$ 2,703,468                    | 2%         | \$ 4,388,519  | 10%        |
| China                 | 111,332,763                     | 95%        | 38,576,289    | 88%        |
| Europe & other region | 3,302,120                       | 3%         | 1,010,655     | 2%         |
| Total                 | \$ 117,338,351                  | 100%       | \$ 43,975,463 | 100%       |

**(b) Cost of goods sold**

Cost of goods sold during the nine months ended September 30, 2014 was \$99,748,314, representing an increase of \$66,075,266 or 196.2% from \$33,673,048 in the corresponding period of 2013. This increase was primarily due to the corresponding increased sales for the nine months ended September 30, 2014. However, the increase in cost of goods sold outpaced the growth of our revenues, which was largely due to relatively less profitable raw material purchases in our newly-added EV parts product line, and the sale of EV parts accounted for 66.5% of total revenue for the nine months ended September 30, 2014. As a result, cost of goods sold for our EV parts product line comprised the majority, or 70.9%, of the total cost of goods sold for the nine months ended September 30, 2014. The battery sales accounted for the majority of our EV parts sales and its corresponding cost of goods sold accounted for 56.8% of total cost of goods sold.

For the nine months ended September 30, 2014, excluding the battery business mentioned above, our cost of raw materials had a percentage increase of 0.36% compared to the sales increase in the same period of time year over year.

Excluding the battery business mentioned above, total wages and salaries for the nine months ended September 30, 2014, had an increase of 1.66% compared to the sale increase in the same period of time year over year.

Excluding the battery business mentioned above, our other overhead costs for the nine months ended September 30, 2014 had a decrease of 2.59% compared to the sales increase in the same period of time year over year.

For the nine months ended September 30, 2014, raw material costs comprised approximately 95.0% of total cost of goods sold, labor costs comprised approximately 1.7% of total cost of goods sold, and manufacturing overhead comprised approximately 3.3% of the total cost of goods sold. For the nine months ended September 30, 2013, raw material costs comprised approximately 87.6% of total cost of goods sold, labor costs comprised approximately 2.6% of total cost of goods sold, and manufacturing overhead comprised approximately 9.8% of the total cost of goods sold.

**(c) Gross profit**

Gross profit for the first nine months of 2014 was \$17,590,037 as compared to \$10,302,415 for the same period last year, representing an increase of \$7,287,622 or 70.7% . This increase was primarily attributable to the increase in our revenue. However, our gross margin in the first nine months of 2014 decreased to 15.0% compared to 23.4% for the same period of 2013. The decreased gross margin was mainly because the majority of our revenue growth during the first nine months of the year came from the relatively less profitable EV parts product lines, which had a gross margin of 9.4% compared to the average gross margin of 15.0% for the Company as a whole.

**(d) Selling and distribution expenses**

Selling and distribution expenses were \$939,516 for the nine months ended September 30, 2014, compared to \$263,414 for the same period in 2013, representing an increase of \$676,102 or 256.7% . This increase was primarily attributable to warranty expenses of \$567,755 for repair and maintenance charged during the second quarter and the third quarter of 2014. We contracted a qualified third party to provide repair and maintenance services for the 1,620 Kandi 7001 series EV sedans we have sold. The total price of this service is \$3,176,080, which will be amortized over three years. Excluding this charge, our selling and distribution expenses increased \$108,347, or 41.1%, as compared to the same period of last year. The increase was largely due to the increased expenses in trade shows and advertising as we increased our sales and marketing efforts this year as well as the shipping and handling costs.

**(e) General and administrative expenses**

General and administrative expenses were \$11,720,693 for the nine months ended September 30, 2014, compared to \$4,826,622 for the same period in 2013, representing an increase of \$6,894,071 or 142.8% . For the nine months ended September 30, 2014, general and administrative expenses included \$6,453,797 in expenses for common stock awards to employees and consultants for their services, compared to \$81,042 for the same period in 2013. Excluding stock award costs, our net general and administrative expenses for the nine months ended September 30, 2014 were \$5,266,896, an increase of \$521,316, or 11.0%, over \$4,745,580 for the same period of 2013. This increase was primarily attributable to costs related to the capital raises consummated this January and March.

**(f) Research and development**

Research and development expenses were \$2,535,027 for the nine months ended September 30, 2014, compared to \$1,863,020 from the same period in 2013, representing an increase of \$672,007 or 36.1% . This increase was primarily due to our increased costs of materials, testing and inspection related to the development and commercialization of our new EV model - SMA7005BEV, the development of our new auto air conditioning system, and the development of our EV intelligent control system used in our EV products.

**(g) Government grants**

Government grants totaled \$217,284 for the nine months ended September 30, 2014, representing an increase of \$156,400, or 256.9%, from \$60,884 in the corresponding period in 2013. The increases were largely due to the subsidies we received from the Chinese government for promoting local business.

**(h) Net interest (income) expense**

Net interest expense was \$1,397,294 for the nine months ended September 30, 2014, compared to \$2,472,377 for the same period last year, representing a decrease of \$1,075,083 or 43.5% . This change was primarily attributable to an increase in interest income earned on loans made to third parties. For the nine months ended September 30, 2014, we recorded interest income of \$1,453,047, which included \$1,411,815 earned on loans made to third parties and \$41,232 earned on bank deposits. For the nine months ended September 30, 2014, we recorded interest expense of \$2,850,341, which included bank loan interest of \$1,728,432 and bond interest of \$1,121,909.

**(i) Change in fair value of financial instruments**

For the nine months ended September 30, 2014, the gain related to changes in the fair value of the derivative liability relating to the warrants issued to investors and placement agents was \$6,814,675, compared to a loss of \$6,956,963 for the same period of last year, a change of \$13,771,638 or 198.0% . The gain on the changes in the fair value of derivative liability is due to the decrease of the fair value price of the derivative which was primarily attributable to two factors. Firstly, it was caused by the decrease of the Company's stock price of the common stock underlying the warrants issued on September 4, 2014, which decreased from \$17.13 on the issuance date to \$12.99 on September 30, 2014. Secondly, it was due to the passage of remaining life of the existing outstanding warrants (excluding the warrants issued in September 2014), especially a significant portion of the warrants will expire in January 2015.

**(j) Share of (loss) of associated company**

Investment losses were \$54,290 for the first nine months ended September 30, 2014, compared to a loss of \$45,327 for the corresponding period in 2013, an increase of \$8,963 or 19.8% . For the nine months ended September 30, 2014 and 2013, these losses were attributable to our 30% equity ownership of Jinhua Service. In July 2014, Jinhua Service ceased its operations and was dissolved. As a result, we wrote off the remaining investment in this entity and associated liabilities due to this entity.

**(k) Share of profit (loss) after tax of the JV Company**

For the nine months ended September 30, 2014, the JV Company's net sales was \$126,763,793, gross income was \$13,944,898, and net income of \$6,782,272.

The JV Company recorded net income of \$6,782,272 for the nine-month period ended September 30, 2014. We accounted for our investments in the JV Company under the equity method of accounting as we have a 50% ownership interest in the JV Company. As a result, we recorded 50% of the JV Company's profit, or \$ 3,391,136 for the nine-month period ended September 30, 2014. After eliminating intra-entity profits and losses, our share of the after tax profit of the JV Company was \$3,757,218 for the nine months ended September 30, 2014, compared to a loss of \$120,016 representing our share of the JV Company's loss for the same period of last year, an increase in income of \$3,877,235.

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. We expect the JV Company will continue to perform well as the demand for EV products continues to grow in China evidenced by the increased orders from the Car-Share Project and group long-term lease project.

**(l) Other income, net**

Other income was \$141,641 for the nine months ended September 30, 2014, compared to \$217,160 for the same period of last year, a decrease of \$75,519, or 34.8% . This decrease was primarily attributable to the decrease in lease income we received during this reporting period.

**(m) Net income (loss) from continuing operation**

We achieved net income of \$10,604,627 for the nine months ended September 30, 2014, compared to net loss of \$6,469,404 for the same period in 2013, a change of \$17,074,031 or 263.9% . The net income was primarily attributable to increased revenue and gross profits, and the gain from the change in the fair value of warrant derivatives.

Excluding (i) the effects of stock award expenses, which were \$6,453,797 and \$81,042 for the nine months ended September 30, 2014 and 2013, respectively, and (ii) the change of the fair value of financial derivatives, which were a gain of \$6,814,675 and a loss of \$6,956,963 for the nine months ended September 30, 2014 and 2013, respectively, our net income (non-GAAP) was \$10,243,749 for the nine months ended September 30, 2014 as compared to net income (non-GAAP) of \$568,601 for the same period of 2013, an increase of \$9,675,148 or 1,701.6% . The increase in such net income was primarily attributable to the increase of revenue and gross profits during the first nine months of 2014.

We make reference to certain non-GAAP financial measures, i.e., the adjusted net income. Management believes that such adjusted financial result is useful for investors in evaluating our operating performance because it presents a meaningful measure of corporate performance. See the non-GAAP reconciliation table below. Any non-GAAP measures should not be considered as a substitute for, and should only be read in conjunction with, measures of financial performance prepared in accordance with GAAP.

|   | <b>Nine Months Ended September 30</b> |                |
|---|---------------------------------------|----------------|
|   | 2014                                  | 2013           |
| GAAP net income (loss) from continuing operations | \$ 10,604,627                         | \$ (6,469,404) |
| Stock award expenses                              | 6,453,797                             | 81,042         |
| Change of the fair value of financial derivatives | (6,814,675)                           | 6,956,963      |
| Non-GAAP net income from continuing operations    | 10,243,749                            | 568,601        |

#### **Financial Condition Liquidity and Capital Resources Working Capital**

We had a working capital surplus of \$108,121,553 as of September 30, 2014, compared to a working capital deficit of \$24,027,852 as of September 30, 2013.

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 relating to developing Kandi Wanning s manufacturing factory in Wanning city, Hainan province. 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, we had credit lines from commercial banks of \$41,910,331, of which \$35,412,606 was used as of September 30, 2014.

We believe that our cash flows generated internally may not be sufficient to support the future growth in our operations and to repay short-term bank loans for the next twelve (12) months, if needed. However, we believe our access to existing financing sources, including our registered direct offering completed on September 4, 2014 and established relationships with PRC banks will enable us to meet our obligations and fund our ongoing operations.

We have historically financed our 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 on a particular loan, the banks have typically rolled over the loan for additional one-year terms, with adjustments made to the interest rate to reflect prevailing market rates. We believe this situation has not changed and that short-term bank loans will be available on normal trade terms if needed.

On March 24, 2014, we raised approximately \$11.05 million by selling an aggregate of 606,000 shares of our common stock to two institutional investors at a price of \$18.24 per share. As part of the transaction, we 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.

On September 4, 2014, we closed a registered direct placement with institutional investors and raised approximately \$71 million from selling our common stock at a price of \$17.20 per share. We issued a total of 4,127,908 shares to the institutional investors. As part of the transaction, we 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 have a term of 17 months from the date of issuance until February 4, 2016. In addition, any investor that invested more than \$30 million in the initial offering of shares and warrants received an option to purchase its pro rata share of up to \$30 million of additional 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 common stock at \$17.20 per share until November 17, 2014. The gross proceeds from this offering were \$71 million. After deducting offering expenses, the net proceeds will be used for general working capital purposes.

#### **Capital Requirements and Capital Provided**

Capital requirements and capital provided for the nine months ended September 30, 2014 were as follows:

|                                      | <b>Nine<br/>Months<br/>Ended<br/>September<br/>30, 2014<br/>(In<br/>thousands)</b> |
|--------------------------------------|--|
| <b><u>Capital requirements</u></b>   |  |
| Purchase of plant and equipment      | \$ 813   |
| Purchases of land use rights         | 1,668  |
| Purchase of construction in progress | 39   |
| Issuance of notes receivable         | 21,699   |
| Repayments of short-term bank loans  | 39,999   |
| Repayments of notes payable          | 16,585   |
| Internal cash used in operations     | 46,398   |
| Total capital requirements           | \$ 127,201   |
| <b><u>Capital provided</u></b>       |  |
| Repayments of notes receivable       | 29,345   |
| Increase in restricted cash          | (13,006)   |
| Proceeds from short-term bank loan   | 28,617   |
| Proceeds from notes payable          | 13,008   |
| Common stock and warrants issued     | 78,156   |
| Warrant exercise                     | 22,448   |
| Other financing activities           | 6,430  |
| Increase in cash                     | (37,700)   |
| Total capital provided               | \$ 127,298   |

The difference between capital provided and capital required is caused by the exchange rate changes over the past nine months.

### **Cash Flow**

For the nine months ended September 30, 2014, cash used in operating activities was \$46,397,580, as compared to cash provided by operating activities of \$20,930,272 for the nine months ended September 30, 2013. The major operating activities that provided cash for the nine months ended September 30, 2014 were net income of \$10,604,627, an increase in accounts payable of \$32,911,627 and a decrease in accounts receivable of \$17,190,113. The major operating activities that used cash for the nine months ended September 30, 2014 were an increase in receivables from the JV Company of \$49,177,160, and an increase in prepayment and prepaid expenses of \$49,927,475. Cash provided by investing activities for the nine months ended September 30, 2014 was \$ 5,029,182, as compared to cash used in investing activities of \$44,444,947 for the nine months ended September 30, 2013. Cash provided by investing activities for the nine months ended September 30, 2014 was primarily the result of the repayment of notes receivable of \$ 29,344,951. Cash used in investing activities for the nine months ended September 30, 2014 was primarily the result of the issuance of notes receivable of \$21,698,986.

Cash provided by financing activities for the nine months ended September 30, 2014 was \$ 79,068,355, as compared to cash provided by financing activities of \$25,016,660 for the nine months ended September 30, 2013. Cash provided by financing activities for the nine months ended September 30, 2014 was primarily the result of proceeds from short-term loans of \$28,616,816, proceeds from notes payable of \$13,007,644, proceeds from common stock and warrants issued of \$78,155,627, and proceeds from warrant exercises of \$22,447,914. Cash used in financing activities for the nine months ended September 30, 2014 was primarily the result of repayment of short-term loans of \$39,998,504, repayments of notes payable of \$16,584,746, and placement of restricted cash of \$13,006,018.





As of September 30, 2014, we had unrestricted cash of \$ 49,500,712. Our total current assets were \$208,850,377, and our total current liabilities were \$100,728,824, which resulted in a net working capital of \$108,121,553.

**Recent Development Activities:**

During the quarter ended September 30, 2014 and the subsequent period, the Car-Share Project had been through significant development in the cities of Shanghai, Chengdu and Nanjing. Shanghai Jinshan Car-Share Project was launched in August 2014 with the first 208 Kandi Brand EVs delivered. The Car-Share Project is anticipated to be launched in Chengdu city by the end of this year with 1,000 Kandi Brand EVs to be delivered. It will soon be launched in Nanjing city. Purchasers of Kandi's SMA7000BEV and SMA7001BEV models are the ultimate beneficiaries, on a per car basis, the national government subsidy of RMB 47,500.00 (Approximately \$7,738.00) and the local government subsidy of RMB 47,500.00 (Approximately \$7,738.00) from provincial government and municipal government combined at both Chengdu (Sichuan province) and Nanjing (Jiangsu province). Additionally, these two vehicle models also qualify for free license plates in Shanghai. The license plates in Shanghai are auctioned to the public at an average price between RMB70,000.00 to RMB80,000.00 (\$11,410.00 to \$13,040.00) per license plate.

On September 30, 2014, the new pure electric vehicle model KD17 "Cyclone", jointly developed by us and Geely Automobile Holdings Ltd., passed the evaluation done by the executive team of the JV Company. "Cyclone" is a five-door, four-seat vehicle with spacious and comfortable seating area. The vehicle utilizes newly developed triple element non-polymer battery and central control system featuring in both touch screen and conventional buttons. "Cyclone" achieved multiple domestic automobile golden standards and is currently under the examination by China's Ministry of Industry and Information Technology, with the expectation to release to the market at the end of 2014.

On October 29, 2014, the JV Company entered into a Strategic Cooperation Framework Agreement with Ant Financial Services Group to launch *Alipay* and *Alipay Wallet* services to the Car-Share Project. The scope of the agreement includes, but is not limited to utilizing mobile application *Alipay Wallet*, China's leading electronic and mobile payment service for Kandi's Car-Share Project, and co-developing other innovative services, such as customer credit system, online booking, and membership management. *Alipay Wallet* offers the convenience of renting Kandi's EV through a smart phone. Additionally, it allows zero deposit and guarantee for qualified renters with good credit records based on Alipay's proprietary transaction data. Kandi expects to launch the first mobile application for the Car-Share Project based on *Alipay Wallet* platform by the end of November.

On August 30, 2014, the JV Company held a meeting of the board of directors. The board unanimously elected Mr. Hu Xiaoming as Chairman of the JV Company to succeed Mr. Li Shufu and appointed Mr. Liu Jinliang as President of the JV Company.

From July to the date of this report, the JV Company's management and board members, including Mr. Hu Xiaoming and Mr. Li Shufu had been through a variety of meetings with local government officials who supported the Car-Share Project, including the meeting with Mr. Zhang Hongming, Mayor of Hangzhou on July 29, 2014, the field research with Mr. Xia Baolong, Party Secretary of Zhejiang Province on September 2, 2014; a field survey with Mr. Gong Zheng, Party Secretary of Hangzhou on September 25, 2014. During the same period, the JV Company management has been invited to many EV pilot cities to introduce and negotiate the cooperation of Kandi's "Car Share Project" business model such as Zhengzhou, Beijing, Wuhan, Guangzhou, and Shenzhen.

On August 20, 2014, Messrs. Li Shufu and Hu Xiaoming called upon the heads of the Chinese Electric Vehicle Research Institute and other related departments to have a focused discussion on the five year strategic plan for new products. During the meeting, Messrs. Li and Hu laid out our plans for new products in development. We believe that the next generation of pure EVs will be massively competitive in the market.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

#### **Exchange Rate Risk**

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 Chinese 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 RMB currencies.

#### **Economic and Political Risks**

Our 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 in the PRC and foreign currency exchange. Our 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.

### **Item 4. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

We have evaluated, under the supervision of our Chief Executive Officer ( CEO ) and our Chief Financial Officer ( CFO ), the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act )) as of September 30, 2014. Based on this evaluation, our CEO and CFO concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act (a) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above.

#### **Changes in Internal Control over Financial Reporting**

During the quarter ended September 30, 2014, we continued to implement the remediation measures according to our new Internal Audit Activity Charter that were approved on May 30, 2014. In addition, the Audit Committee conducted a self-assessment to assess our effectiveness in oversight of management and updated the Audit Committee Charter.

Other than those set forth above, there was no change to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

On November 21, 2013, the Company received a subpoena from the SEC seeking the production of various categories of documents in an investigation entitled *In the Matter of Kandi Technologies Group, Inc.* The Company has cooperated fully with the SEC's investigation and intends to continue doing so by providing whatever documents and other information requested. The Company has no information at present regarding the duration or outcome of the investigation. The November 21, 2013 subpoena stated that the investigation is a fact-finding inquiry and its existence does not mean that any laws have been violated.

### **Item 1A. Risk Factors.**

*Changes in the policies of the PRC government could have a significant impact upon the business we may be able to conduct in the PRC and the profitability of such business.*

Chinese government has made significant efforts in actively advocating the development of new energy vehicles to reach production and sales targets of 0.5 million New Energy Vehicles (NEVs) by 2015 and 5 million NEVs by 2020. We received support from the local and central government of the PRC from time to time. For example, purchasers of three models of Kandi brand EVs are eligible to receive purchase tax exemption at the amount of 10% of the vehicle's total purchase price during the three-year period from September 1, 2014. Purchasers of Kandi's SMA7000BEV and SMA7001BEV models are the ultimate beneficiaries, on a per car basis, the national government subsidy of RMB 47,500.00 (Approximately \$7,738.00) and the local government subsidy of RMB 47,500.00 (Approximately \$7,738.00) from provincial government and municipal government combined at both Chengdu (Sichuan province) and Nanjing (Jiangsu province). Additionally, these two vehicle models also qualify for free license plates in Shanghai. The license plates in Shanghai are auctioned to the public at an averaged price between RMB70,000.00 to RMB80,000.00 (\$11,410.00 to \$13,040.00) per license plate. While we believe the latest tax exemption, along with a series of government incentives and subsidies, may have a very positive impact on the sales of Kandi Brand EVs in China going forward, we cannot assure you it is always the case. In the event such favored policy and treatment discontinue, our business outlook and financial conditions could be negatively impacted.

*If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.*

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. As directed by Section 404 of the Sarbanes-Oxley Act of 2002, or SOX 404, the SEC adopted rules requiring public companies to include a report of management on our internal controls over financial reporting in their annual reports.

Despite of our recent efforts in improving our internal control procedures and remediating the material weaknesses, we cannot provide assurance that we will not fail to achieve and maintain an effective internal control environment on an ongoing basis, which may cause investors to lose confidence in our reported financial information and have a material adverse effect on the price of our common stock.

*Techniques employed by manipulative short sellers in Chinese small cap stocks may drive down the market price of our common stock.*

Short selling is the practice of selling securities that the seller does not own but rather has, supposedly, borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is therefore in the short seller's best interests for the price of the stock to decline, many short sellers (sometimes known as "disclosed shorts") publish, or arrange for the publication of, negative opinions or reports regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. These short attacks have, in the past, led to selling of shares in the market, on occasion in large scale and broad base.

These short seller publications are not regulated by any governmental, self-regulatory organization or other official authority in the U.S., are not subject to the certification requirements imposed by the Securities and Exchange Commission in Regulation AC (Regulation Analyst Certification) and, accordingly, the opinions they express may be based on distortions of actual facts or, in some cases, fabrications of facts. In light of the limited risks involved in publishing such information, and the enormous profit that can be made from running just one successful short attack, unless the short sellers become subject to significant penalties, it is more likely than not that disclosed short sellers will continue to issue such reports.

While we intend to strongly defend our public filings against any such short seller attack, often times we are constrained, either by principles of freedom of speech, applicable state law (often called "Anti-SLAPP statutes"), or issues of commercial confidentiality, in the manner in which we can proceed against the relevant short seller. You should be aware that in light of the relative freedom to operate that such persons enjoy—oftentimes blogging from outside the U.S. with little or no assets or identity requirements—should we be targeted for such an attack, our stock will likely suffer from a temporary, or possibly long term, decline in market price should the rumors created not be dismissed by market participants.

**Item 6. Exhibits**

| Exhibit Number         | Description  |
|------------------------|--|
| <u>31.1</u>            | <u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934</u>   |
| <u>31.2</u>            | <u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934</u>   |
| <u>32.1</u>            | <u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002**</u> |
| <u>Exhibit 101.INS</u> | <u>XBRL Instance Document.**</u>   |
| <u>Exhibit 101.SCH</u> | <u>XBRL Taxonomy Extension Schema Document.**</u>  |
| <u>Exhibit 101.CAL</u> | <u>XBRL Taxonomy Extension Calculation Linkbase Document.**</u>  |
| <u>Exhibit 101.LAB</u> | <u>XBRL Taxonomy Extension Label Linkbase Document.**</u>  |
| <u>Exhibit 101.PRE</u> | <u>XBRL Taxonomy Extension Presentation Linkbase Document.**</u>   |
| <u>Exhibit 101.DEF</u> | <u>XBRL Taxonomy Definitions Linkbase Document.**</u>  |

\*\* Furnished and not deemed filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under these sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 10, 2014

By: /s/ Hu Xiaoming  
Hu Xiaoming  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 10, 2014

By: /s/ Zhu Xiaoying  
Zhu Xiaoying  
Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)