

Kandi Technologies Group, Inc.
Form 10-K/A
May 16, 2014

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

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2013

or

TRANSITION REPORT UNDER 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 its 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) (Zip Code)

(86-579) 82239856

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, Par Value \$0.001 Per Share

(Title of each class)

NASDAQ Global Select Market

(Name of exchange on which registered)

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 28, 2013, the last business day of the registrant's second fiscal quarter, was approximately \$108,038,543.

The number of shares of common stock outstanding as of March 11, 2014 was 40,105,321.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

Explanatory Note

Kandi Technologies Group, Inc. (the Company, we, us, or our) is filing this Amendment No. 1 on Form 10-K/A (Amendment) to amend and supplement the following provisions of the Form 10-K for the year ended December 31, 2013, filed with the U.S. Securities and Exchange Commission (the Commission) on March 17, 2014 (the Form 10-K), to agree with the Company's responses to the SEC Staff's comments dated April 25, 2014:

- Item 7 of Part II
- Note 19 of the Notes to Consolidated Financial Statements under Item 8 of Part II
- Item 13 of Part III

In this Amendment, we expanded the analysis under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation to: (i) include comparable GAAP measures where non-GAAP figures were presented regarding net income in the Overview section; (ii) expand the disclosure under EV Products to provide greater detail regarding the Company's business partners and EV sharing project; and (iii) quantify all factors contributing to the change in interest income (expense) in the section entitled Interest Income (Expense), Net. The Company also amended Note 19 of the Notes to Consolidated Financial Statements under Item 8 of Part II to more clearly detail how the Company's effective income tax rate was calculated. Finally, we also amended the disclosure under Item 13. Certain Relationships and Related Transactions, and Director Independence to be consistent with other disclosures made elsewhere in the Form 10-K. The supplementary disclosure does not affect any numbers in our financial statements contained in Form 10-K.

No other changes have been made to the Form 10-K. This Amendment does not reflect events occurring after the filing of the Form 10-K, does not update disclosures contained in the Form 10-K, and does not modify or amend the Form 10-K except as specifically described in this explanatory note. Accordingly, this Amendment should be read in conjunction with our Form 10-K and our other filings made with the Commission subsequent to the filing of the Form 10-K, including any amendments to those filings.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Amendment contains the complete text of Item 13 and currently dated certifications of our Chief Executive Officer and Chief Financial Officer. Capitalized terms not otherwise defined have the meanings ascribed to them in the Form 10-K.

Part II

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Overview

Our core business is designing, developing, manufacturing and commercializing pure electric vehicles (EVs), all-terrain vehicles (ATVs), go-karts, three-wheeled motorcycles and other specialized vehicles. We conduct our business primarily through our wholly-owned subsidiaries that operate in China and other global markets, and most typically, we sell our non-EV products to Chinese export agents who then resell our products in North America, Europe, and other regions.

During the year ended December 31, 2013, we recognized total revenues of \$94,536,045, an increase of \$30,022,375, or 46.5%, over total revenues for the year ended December 31, 2012. The majority of our revenues are generated by the sales of EV products, which account for 49% of the total revenue in 2013. The main reason of significant increase in revenue generated by EV business is because the newly added EV models Kandi Brand SMA7000BEV, a five-door & five-seat vehicle and SMA7001BEV, an improved model of electric vehicle, were both sold at a higher price. In 2013, the Company recorded \$21,742,528 gross profit, increased 68.6% from 2012, primarily due to the increase of revenue. The Company recorded a net loss of (\$21,140,723) in 2013 compared to a net income of \$6,049,479 in 2012, primarily due to a special charge in the amount of (\$16,647,283) in 2013, compared to a special income of \$1,986,063 in 2012, resulting from a change in the fair value of financial instruments and stock awards. Excluding the affects of the change in the fair value of financial instruments and stock awards in both 2012 and 2013, the Company recorded net income (non-GAAP) of \$5,164,880 in 2013 compared to net income (non-GAAP) of \$4,168,072 in 2012, or an increase of 23.9% .

The vehicle manufacturing industry is highly competitive. Current and future factors impacting our industry include: (i) the exponential growth of electrical vehicle sales and dedicated platforms in the global market place, (ii) the consolidation of supply chains and costs of components, (iii) rapid technology developments (including 3D printing technology) and (iv) emerging strategic partnerships and joint ventures in the automotive industry generally.

Our business strategy includes our efforts to provide our customers with high-quality products and to expand our footprint in new and existing markets. As part of these efforts, we have invested in a joint venture company called Zhejiang Kandi Electric Vehicles Co., Ltd. (the JV Company), which develops, manufactures and sells EVs and related products. In December 2013, our EV business was recognized as producing the top two model types of EVs in China. These EV model types have an impressive driving range of 150 kilometers or more, which entitles them to a higher rebate or subsidy than older models under Chinese policy. We are also advancing the profile and demand for our EV products through the EV sharing project. To further this initiative, we are working with our business partners to build a network of public EV sharing stations (for charging and parking) and partnering with high-end hotels in the Hangzhou area of China to provide energy-efficient, convenient travel options for local citizens and tourists. We anticipate that our pure EV business in China, through operations of the JV Company and the support of new Chinese subsidy policies, will continue to develop and thrive in the future.

Results of Operations

The following table sets forth the amounts and the percentage relationship to revenues of certain items in our consolidated statements of income for the years ended December 31, 2013 and 2012:

For The Years Ended
December 31, 2013 and 2012

| | 2013 | | 2012 | | Comparisons | |
|---|-----------------|--------------|---------------|--------------|------------------|-------------|
| | Amount | % of Revenue | Amount | % of Revenue | Change in Amount | Change In % |
| REVENUES | \$ 94,536,045 | 100.0% | \$ 64,513,670 | 100.0% | \$ 30,022,375 | 46.5% |
| COST OF GOODS SOLD | (72,793,517) | (77.0)% | (51,620,280) | (80.0)% | (21,173,237) | 41.0% |
| GROSS PROFIT | 21,742,528 | 23.0% | 12,893,390 | 20.0% | 8,849,138 | 68.6% |
| Research and Development | (3,728,730) | (3.9)% | (2,877,283) | (4.5)% | (851,447) | 29.6% |
| Selling and Marketing | (399,504) | (0.4)% | (455,983) | (0.7)% | 56,479 | (12.4)% |
| General and Administration | (16,056,107) | (17.0)% | (4,250,832) | (6.6)% | (11,805,275) | 277.7% |
| INCOME FROM OPERATIONS | 1,558,187 | 1.6% | 5,309,292 | 8.2% | (3,751,105) | (70.7)% |
| Government Grants | 228,396 | 0.2% | 132,139 | 0.2% | 96,257 | 72.8% |
| Share of (loss) of associated company | (69,056) | (0.1)% | (69,429) | (0.1)% | 373 | (0.5)% |
| Other Income, Net | 676,257 | 0.7% | 332,936 | 0.5% | 343,321 | 103.1% |
| Interest (Expense) | (2,878,876) | (3.0)% | (117,787) | (0.2)% | (2,761,089) | 2,344.1% |
| Change in Fair Value of Financial Instruments | (16,647,283) | (17.6)% | 1,986,063 | 3.1 % | (18,633,346) | (938.2)% |
| Share of Loss after tax of JV | (2,414,354) | (2.6)% | - | - | (2,414,354) | 100.0% |
| (LOSS) INCOME BEFORE INCOME TAX | (19,546,729) | (20.7)% | 7,573,214 | 11.7% | (27,119,943) | (358.1)% |
| INCOME TAX (EXPENSE) BENEFIT | (1,593,994) | (1.7)% | (1,523,735) | (2.4)% | (70,259) | (4.6)% |
| NET (LOSS) INCOME | \$ (21,140,723) | (22.4)% | \$ 6,049,479 | 9.4% | \$ (27,190,202) | (449.5)% |

Revenues

For the year ended December 31, 2013, our revenues increased by 46.5%, from \$64,513,670 in 2012 to \$94,536,045 in 2013.

| | Year ended December 31 | | | |
|--------------------------------|------------------------|---------------|---------|---------------|
| | 2013 | | 2012 | |
| | Units | Revenue | Units | Revenue |
| All-terrain Vehicles (ATVs) | 18,295 | \$ 10,407,858 | 14,467 | \$ 6,402,753 |
| Electric Vehicles (EVs) | 4,694 | 46,619,203 | 3,915 | 19,034,936 |
| Go-Kart | 36,499 | 33,187,877 | 34,517 | 30,794,415 |
| Utility vehicles (UTVs) | 440 | 1,155,221 | 93 | 319,014 |
| Three-wheeled motorcycles (TT) | 243 | 383,760 | 1,060 | 1,272,898 |
| Refitted car | 39 | 1,058,095 | 115 | 3,172,417 |
| Auto generator | 51,588 | 1,724,031 | 93,881 | 3,517,237 |
| Total | 111,798 | \$ 94,536,045 | 148,048 | \$ 64,513,670 |

In 2013, our ATVs experienced an increase in revenue of \$4,005,105 or 62.6%, a 26.5% increase in unit sales, and a 28.5% increase in the average unit price compared to fiscal year 2012. The increase in revenue was primarily attributable to the market condition for ATV products, which continued to recover and the increase in the average unit price is because a higher percentage of high-end and middle-end products were sold in 2013.

In 2013, our go-karts experienced an increase in revenue of \$2,393,462, or 7.8%, a 5.7% increase in unit sales, and a 1.9% increase in the average unit price compared to fiscal year 2012. The increase in revenue was mainly attributable to the relative stable growth in go-karts sales. The Company manufactures both high-end, more expensive go-kart products and less expensive go-kart products to meet customers' various needs.

In 2013, our utility vehicles (UTVs) experienced an increase in revenue of \$836,207 or 262.1%, a 373.1% increase in unit sales, and a 23.5% decrease in the average unit price compared to fiscal year 2012. The increase in revenue was mainly attributable to the increase of UTV orders. The decrease in the average unit price was due to the fact that cheaper model UTVs took a higher percentage of sales in year 2013

EV Products

In 2013, our EV products experienced an increase in revenue of \$27,584,267 or 144.9%, a 19.9% increase in unit sales, and a 104.3% increase in the average unit price compared to fiscal year 2012. In the fourth quarter, the EV revenues increased \$26,382,915, or 193.7% compared to the same period of 2012. The unit sales grew by 27.2% and the average unit price increased by 130.9% . The significant increase was mainly attributable to the newly added EV model Kandi Brand SMA7000BEV, a five-door & five-seat vehicle and SMA7001BEV, an improved model of electric vehicle, are both sold at a much higher price. The increasing sales were driven by the Hangzhou Public EV Sharing System (the Carshare Project).

The implementation of the Carshare Project, and other EV sharing networks, requires the development of public EV sharing stations. The Service Company is assisting the Company in the development of the public EV sharing stations. The Service Company is responsible for several aspects of the public EV sharing project, including: (i) launching the public EV sharing business; (ii) establishing a network of public EV sharing stations; (iii) investing in the construction of service facilities and parking facilities for the public EV sharing project; and (iv) providing services directly to customers who rent the EVs. The JV Company, a joint venture established by the Company and Geely (the Joint Venture), owns a 19% interest in the Service Company. The remaining 81% is owned by Jia Xing Jia Le Investment Partnership Enterprise, an entity which is unaffiliated with the Company.

The Company recognizes revenue from its EV sharing network when it sells the SKD set, a complete set of the main parts that can be assembled into whole vehicles, to Shanghai Maple. Shanghai Maple, a 99% owned subsidiary of the Company's business partner, Geely, then assembles the SKD into a complete vehicle and sells it to the Service Company. Revenue from the subsequent sale of the full vehicle to the Service Company by Shanghai Maple is not attributable to the Company. The Company indirectly owns a 9.5% ownership interest in the Service Company through its 50% ownership in the Joint Venture. The revenue from car rentals belongs to the Service Company, not to the Company. Therefore, the sole source of revenue to the Company is from the sale to Shanghai Maple of the Company's SKD of an EV.

As a result of the renewal of national subsidy policy in September of 2013, most of our SKD of an EV sales occurred in the fourth quarter. We believe that sales in the first three quarters were negatively affected by the delay of the subsidy policy.

Motorcycles

In 2013, our TT experienced a decrease in revenue of \$889,138 or 69.9%, a 77.1% decrease in unit sales, and a 31.5% increase in the average unit price compared to fiscal year 2012. The decrease was primarily attributable to the change in the product structure. There were less TTs manufactured and we may decrease or stop manufacturing such products. The increase in the average unit price in 2013 was because higher percentage of TTs sold were more expensive models.

Refitted Car

In 2013, our refitted car experienced a decrease in revenue of \$2,114,322, or 66.6%, a decrease of 66.1% in unit sales and a 1.7% decrease in the average unit price compared to fiscal year 2012. The decrease in revenue was mainly because that the Company decided to discontinue this business during the third quarter of 2013 and focus its efforts on increasing its electric vehicles revenue in China market. Refitted Car is a term used by the Company to describe a line of business, where the Company modifies (refits) vehicles manufactured by unrelated, other companies to meet the special requirements of our customers. For example, the Company may make exterior changes, refit AMWS, or install nonstandard features, including, but not limited to, a rearview camera, TPMS, drive recorder, anti-theft device, reversing radar and DVD player.

Auto generator

In 2013, our auto generator experienced a decrease in revenue of \$1,793,206 or 51.0%, a 45.0% decrease in unit sales and a 10.8% decrease in the average unit price compared to fiscal year 2012. The decrease in revenue was due to the adjustment in yongkang Scrou's product offering from a manufacturer of auto alternator to a wide range of main products, such as driving motor, air-conditioning system and controller for electric vehicles now. Yongkang Scrou provides these products for use with our vehicles; sales in connection with providing these products to our vehicles are categorized as inter-company transactions and have been eliminated in consolidation.

The following table shows the breakdown of Kandi's revenues from its customers by geographic markets:

| | Year Ended December 31 | | | |
|--------------------------|------------------------|------------|---------------|------------|
| | 2013 | | 2012 | |
| | Sales Revenue | Percentage | Sales Revenue | Percentage |
| North America | \$ 6,906,807 | 7% | \$ 7,243,257 | 11% |
| Europe and other regions | 2,394,948 | 3% | 1,639,990 | 3% |
| China | 85,234,290 | 90% | 55,630,423 | 86% |
| Total | 94,536,045 | 100% | 64,513,670 | 100% |

Cost of Goods Sold

Cost of goods sold during the year ended December 31, 2013 was \$72,793,517, representing a 41.0% increase from \$51,620,280 in 2012. This was the result of an increase in our sales.

However, sales increased by a higher percentage than related costs. Our sales had a 46.5% increase in 2013 compared to 2012; whereas our cost of goods sold only increased by 41.0% in 2013 compared to 2012. The main reasons that our costs increased by only 41.0% in 2013 compared to 2012 are as follows:

In consideration of the cost increase resulting from the increase of sales volume, the actual cost increase in 2013 is 5.5% less when compared to the increase in sales. This was the result of the following three factors:

- i. In 2013, the cost of raw materials had a relatively slower increase, which is 5.7% less than the percentage of our sales increase in the same period of time, mainly because (i) the new products, especially our EV products were sold at higher price compared to 2012, therefore those products raw material costs had a relative low increase percentage compared to their sale increase; and (ii) the Company strengthened its cost control, reduced the waste of raw materials in manufacturing process.
- ii. With the labor cost increase in China, due to short supply and higher standard wages, our labor costs also increased. Total wages and salaries had a relatively higher increase of 0.3% in 2013, compared to the sale increase in the same period of time.
- iii. Our other overhead costs in 2013 had a relatively slower increase of 0.1% in 2013 compared to the sales increase in the same period of time, because some low value consumption goods, such as tools, which were acquired in previous years were still being used in 2013. The wear and tear costs for tools in the workshops booked in accounting increased in a slower pace compared to the pace of increase of our sale.

Gross Profit

Gross profits increased by \$8,849,138, or 68.6%, in 2013 as a result of increased net sales. During 2013, the gross margin increased from 20.0% in 2012 to 23.0% in 2013. This 3% increase in our gross margin resulted mainly because in 2013 we adjusted our product structure and more high price products, especially the EV products, are sold, while those high price products generally with higher gross margin.

Sales and Marketing

Sales and distribution expenses were \$399,504 for fiscal year ended December 31, 2013, as compared to \$455,983 from the same period in 2012, representing a 12.4% decrease. This decrease is primarily attributable to a decrease in our export and customs inspection fees during this reporting period.

General and Administrative

General and administrative expenses increased 277.7% during the fiscal year ended December 31, 2013, from \$4,250,832 to \$16,056,107. In addition to cash cost related to general and administrative expenses, in 2012, the general and administrative expenses included \$85,558 stock awards related expense, whereas in 2013, the expense for common stock awards to directors and certain employees was \$9,658,320. Additionally, in fiscal year 2012 the general and administrative expenses also included \$19,053 in stock-based compensation costs for the options issued to the Company's executives and managerial level employees, while for the year 2013, this stock option based compensation cost was \$0. Excluding the effect of stock award cost and option cost, the net general and administrative

expenses for the year ended December 31, 2013 was \$6,397,787, increased 54.3% from \$4,146,221 for the same period in 2012. This increase was primarily attributable to costs related to the capital raise that occurred in the third quarter of 2013, and higher depreciation and amortization costs.

Research and Development

For the year ended December 31, 2013, research and development expenses increased \$851,447, or 29.6%, to \$3,728,730 from \$2,877,283 for the year ended December 31, 2012. This increase was primarily due to additional research and development efforts in the fourth quarter of 2013 for developing new EV products to meet market demands.

Government Grants

Government grants totaled \$228,396 for the year ended December 31, 2013, representing a 72.8% increase over the same period in 2012. For the year ended December 31, 2013, the government grants included \$1,694 in subsidies for technology innovation and patent applications, \$182,287 subsidies for supporting companies that have competitive advantages and \$44,415 export subsidies.

Share of (Loss) of Associated Company

Share of (loss) of associated company was (\$69,056) for the year ended December 31, 2013, compared to loss of (\$69,429) for the corresponding period in 2012. For the years ended December 31, 2013 and 2012, these losses were attributable to our 30% equity interest investment in Jinhua Service.

Other Income (Expense), Net

Net other income was \$676,257 for the year ended December 31, 2013, compared to \$332,936 for the year ended December 31, 2012, representing an increase of \$343,321 or 103.1% . This increase is primarily because the Company wrote off \$841,251 payable to Ever Lotts Investment Limited, which had not been claimed for more than three (3) years as of December 31, 2013. Additional details regarding this write-off are set forth in Note 14 of our financial statements.

Interest Income (Expense), Net

The Company's total interest expense for the year ended December 31, 2013 was (\$4,395,353), comprised of bank loan interest of (\$2,302,389), bond interest of (\$1,060,851), discount interest for bank notes of (\$834,105) and borrowing interest paid to Kandi Group of (\$198,008). For the year ended December 31, 2013, interest income received by the Company totaled \$1,516,477, which included interest accrued from bank deposits of \$324,319 and interest earned on note receivables of \$1,192,158. In 2013, the interest expense for convertible notes was \$0, and the interest incurred by the amortization of debt discount was \$0, since the last \$1,000 of convertible notes previously issued were converted in the first quarter of 2012. The interest for the convertible notes in 2012 was (\$2), and the interest incurred by the amortization of debt discount was (\$43). Thus, excluding the effects of interest expense related to convertible notes, net interest expense was (\$2,878,876) for the year ended December 31, 2013, a significant change from a net expense of (\$117,787) for the year ended December 31, 2012. This increase was primarily attributable to: (i) a decrease in interest-related income earned on note receivables issued to third parties and (ii) bond interest expenses incurred by the Company.

Change in Fair Value of Financial Instruments

For the year ended December 31, 2013, the expense which was caused by the increase of fair value of warrants issued to certain investors and placement agents was (\$16,647,283), while for the same period last year, the income caused by fair value change of financial instruments was \$1,986,063. This significant change was primarily due to a significant increase in our stock price in 2013 and the fact that there were more warrants outstanding as of December 31, 2013 compared to December 31, 2012.

Share of Profit (Loss) after Tax of the JV Company

The Company has absorbed a profit (loss) in fiscal year 2013 due to its 50% interest in the JV Company. The JV Company recorded a loss in 2013 because it is still in the start-up phase, though the Company believes it will generate profit in the near future, particularly as demand for our EV products continues to build in China. We believe this is reflected by the fact that if the subsidies receivable from the relevant government agencies for vehicles sold by the JV in 2013 had been paid in 2013, the JV would have experienced a profit instead of a loss; these subsidies are scheduled to be received by the JV in April, 2014. The financial results of the JV and their relationship to the Company's investment in the JV are more fully described in Note 23.

Income Taxes

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

Each of Kandi New Energy, Yongkang Scrou, and Kandi Wanning is a wholly-owned subsidiary of the Company with an applicable corporate income tax rate of 25%.

The Company has a 50% ownership interest in the JV Company and its applicable corporate income tax is 25%.

Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. is a 19% investment of the JV Company and its applicable corporate income tax rate is 25%.

Each of Kandi Electric Vehicles (Changxing) Co., Ltd., Zhejiang Kandi Electric Vehicles Jinhua Co., Ltd., Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. and Kandi Electric Vehicles (Shanghai) Co., Ltd. is a wholly-owned subsidiary of the JV Company with an applicable corporate income tax rate of 25%.

The Company, qualified as a high technology company in China, was entitled to pay a reduced income tax rate of 15%. After combining with the research and development tax credit of 25% on certain qualified research and development expenses, the final effective reduced income tax rate was 16.68%. The combined tax benefits were 50.1%. The actual effective income tax rate was reduced from 25% to 12.48% of the 2013 taxable corporate income.

Net Income (Loss)

For the fiscal year ended December 31, 2013, the Company generated a net loss of (\$21,140,723), a significant change from a net income of \$6,049,479 in year 2012. The decrease was caused by (i) changes in the fair value of financial derivatives, (ii) increases in general and administrative expenses, and (iii) interest expenses.

Excluding the effects of (i) option-related expenses, which were \$0 and \$19,053 for 2013 and 2012, respectively, (ii) the stock award expense, which was \$9,658,320 and \$85,558 for 2013 and 2012, respectively, (iii) the Convertible Note's interest expense, which was \$0 and \$2 for 2013 and 2012, respectively, (iv) the effect caused by amortization of discount on Convertible Notes, which was \$0 and \$43 for 2013 and 2012, respectively, and (v) the change of the fair value of financial derivatives, which was a (\$16,647,283) expense and a \$1,986,063 income for 2013 and 2012, respectively, the Company's net income for the year ended December 31, 2013, was \$5,164,880. This net income figure represents an increase of 23.9% as compared with net income of \$4,168,072 for the same period of 2012, excluding the same effects. This increase is primarily due to our increased sales and gross profit.

Summary of Fourth Quarter Results*Comparison of Three Months Ended December 31, 2013 and 2012*

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 Three Months Ended December 31, 2013 | % Of Revenue | For Three Months Ended December 31, 2012 | % Of Revenue | Change In Amount | Change In % |
|---|---|-------------------------|---|-------------------------|-----------------------------|------------------------|
| REVENUES, NET | \$ 50,560,582 | 100% | \$ 26,331,459 | 100% | \$ 24,229,123 | 92.0% |
| COST OF GOODS SOLD | (39,120,469) | (77.4)% | (21,791,183) | (82.8)% | (17,329,286) | 79.5% |
| GROSS PROFIT | 11,440,113 | 22.6% | 4,540,276 | 17.2% | 6,899,837 | 152.0% |
| Research and development | (1,865,710) | (3.7)% | (871,014) | (3.3)% | (994,696) | 114.2% |
| Selling and distribution expenses | (136,090) | (0.3)% | (124,233) | (0.5)% | (11,857) | 9.5% |
| General and administrative expenses | (11,229,485) | (22.2)% | (1,730,232) | (6.6)% | (9,499,253) | 549.0% |
| INCOME FROM OPERATIONS | (1,791,172) | (3.5)% | 1,814,797 | 6.9% | (3,605,969) | (198.7)% |
| Interest income (expense), net | (406,499) | (0.8)% | 16,019 | 0.1% | (422,518) | (2,637.6)% |
| Change in fair value of financial instruments | (9,690,320) | (19.2)% | 907,268 | 3.4% | (10,597,588) | (1,168.1)% |
| Government grants | 167,512 | 0.3% | 86,197 | 0.3% | 81,315 | 94.3% |
| Share of (loss) profit of associated company | (23,728) | (0.1)% | (23,759) | (0.1)% | 31 | (0.1)% |
| Other income, net | 459,097 | 0.9% | 47,131 | 0.2% | 411,966 | 874.1% |
| Share of (loss) after tax of JV | (2,294,338) | (4.5)% | - | - | (2,294,338) | 100.0% |
| (LOSS) INCOME BEFORE INCOME TAXES | (13,579,448) | (26.9)% | 2,847,653 | 10.8% | (16,427,101) | (576.9)% |
| INCOME TAX (EXPENSE) | (1,091,871) | (2.2)% | (680,872) | (2.6)% | (410,999) | 60.4% |
| NET (LOSS) INCOME | (14,671,319) | (29.0)% | 2,166,781 | 8.2% | (16,838,100) | (777.1)% |

For the three months ended December 31, 2013, our revenue increased by 92.0% from \$26,331,459 to \$50,560,582 due to the fact the Company sold more higher-priced EV products in the fourth quarter of 2013. The cost of goods sold also increased 79.5% during the same period, while gross profit increased \$6,899,837, or 152.0%, from \$4,540,276 in the corresponding period last year to \$11,440,113 in the fourth quarter of 2013.

For the three months ended December 31, 2013, the general and administrative expenses increased 549.0% to \$11,229,485, mainly because of the expense related to stock awarded to directors and certain employees. Research and development expenses increased 114.2% as we engaged in additional research and development efforts for developing new EV products to meet market demands. For the three months ended December 31, 2013, we incurred a non-cash expense of (\$9,690,320) relating to the change in fair value of financial instruments, which was a non-cash income of 907,268 for the same period in 2012.

For the three months ended December 31, 2013, the company recorded a net loss of (\$14,671,319), compared to a net income of \$2,166,781 for the same period of last year. Excluding the effects of option-related expenses, stock award expenses, and the change in the fair value of financial derivative, for the three months ended December 31, 2013, the Company recorded a net income of \$4,596,279, a significant increase from net income of \$1,279,338 for the same period in 2012, excluding the same effects. This increase is primarily due to the increased revenue and gross profit.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Net cash provided by operating activities was \$14,687,446 for the year ended December 31, 2013, as compared to net cash used in operating activities of (\$10,721,895) for the year ended December 31, 2012. The difference in cash flow was because in 2013, (i) the Company focused more on collecting accounts receivable, and the change in accounts receivable caused a net cash inflow of \$3,251,168, compared to a net cash outflow of (\$20,513,099) for the same reporting period in 2012, and (ii) the change in accounts payable caused a net cash inflow of \$13,699,528, which was an increase from a net cash inflow of \$3,566,354 in 2012.

Net cash used in investing activities was (\$59,844,162) for the year ended December 31, 2013 as compared to net cash flow used in investing activities of (\$4,751,858) for the same reporting period in 2012. This was primarily due to the (\$80,668,972) cash outflow for the JV Company in 2013: The Company made a (\$24,383,529) deposit to acquire certain assets in 2012, and spent an (\$39,673,000) to acquire additional assets in 2013, all of which were transferred to Kandi Changxing; Kandi Changxing was then sold to the JV Company. In 2013, the Company recorded \$64,535,177 cash inflow caused by the transfer of Kandi Changxing to the JV Company.

Net cash flow provided by financing activities was \$46,317,978 for the year ended December 31, 2013, compared to net cash flow provided by financing activities of \$25,622,819 for the same period of 2012. This change is primarily attributable to (i) a net cash inflow of \$26,387,498 through issuing common stock and warrants, and (ii) a decrease in restricted cash for 2013 compared to 2012, which caused a cash inflow of \$16,135,044, in contrast to 2012, when the Company recorded a net cash outflow of (\$9,143,907) for restricted cash (though these effects are partially offset by the net cash outflow (\$9,357,601) caused by notes payable in 2013, compared to the net cash inflow of \$19,427,972 in 2012).

Working Capital

The Company had a working capital deficit of (\$6,631,680) as of December 31, 2013, a decrease from a working capital surplus of \$35,898,297 as of December 31, 2012.

As of December 31, 2013, the amount of advances to suppliers was \$8,867,074, which included the advance of a RMB 47 million (\$7,687,275) deposit by Kandi Electric Vehicles (Wanning) Co., Ltd (Kandi Wanning) to Nanjing Shangdong Auto Technologies Co., Ltd. (Nanjing Shangdong) for an equipment purchase. Kandi Wanning and Nanjing Shangdong entered into a letter of intent contemplating the purchase of equipment up to RMB 180 million. 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.

In fiscal year 2013, Kandi Changxing prepaid RMB 130 million to Zhejiang New Energy Auto System Co., Ltd. (Zhejiang New Energy) with the intent to acquire molds and equipment from Zhejiang New Energy, but the transaction did not close, and the advance was returned in full to Kandi Changxing.

As of December 31, 2013, the Company had credit lines from commercial banks in the total amount of \$56,100,752, of which \$34,020,281 had been used as of December 31, 2013. The Company believes that its cash flows generated internally may not be sufficient to support growth of future operations and repay short-term bank loans for the next twelve (12) months, if needed. However, the Company believes its access to existing financing sources and established relationships with PRC banks will enable it to meet its obligations and fund ongoing operations.

The Company has historically financed itself 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 respective loan, the banks have typically rolled over the loans for additional one-year terms, with adjustments made to the interest rate to reflect prevailing market rates. The Company believes this situation has not changed and is confident that the short-term bank loans will be available on market terms if needed.

On June 26, 2013, the Company entered into a securities purchase agreement with certain institutional investors (the Investors) that closed on July 1, 2013, pursuant to which the Company sold to the Investors, in a registered direct offering, an aggregate of 4,376,036 shares of our common stock at a negotiated purchase price of \$6.03 per share, for aggregate gross proceeds of approximately \$26,387,500, before deducting fees to the placement agent and other estimated offering expenses payable by the Company. As part of the transaction, the Investors also received (i) Series A warrants for the purchase of up to 1,750,415 shares of our common stock at an exercise price of \$7.24 per share; (ii) Series B warrants to purchase a maximum aggregate of 728,936 shares of our common stock at an exercise price of \$7.24 per share; and (iii) Series C warrants to purchase a maximum aggregate of 291,574 shares of our common stock at an exercise price of \$8.69.

Off-balance Sheet Arrangements**Guarantees and pledged collateral for third party bank loans**

As of December 31, 2013, the Company provided guarantees for the following third parties:

(1) Guarantees for bank loans

| Guarantee provided to | Amount |
|--|---------------|
| Zhejiang Kangli Metal Manufacturing Company. | \$ 4,906,771 |
| Zhejiang Shuguang industrial Co., Ltd. | 4,906,771 |
| Yongkang Angtai Trade Co., Ltd. | 817,795 |
| Nanlong Group Co., Ltd. | 9,813,543 |
| Total | \$ 20,444,880 |

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 \$4,906,771 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 February 26, 2013, the Company entered into a guarantee contract to serve as the guarantor for the bank loan borrowed from PingAn Bank in the amount of \$4,906,771 by Zhejiang Shuguang industrial Co., Ltd. (ZSICL) for the period from February 26, 2013 to February 26, 2014. 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. This guarantee contract has been renewed for an additional one-year term.

On January 6, 2013, the Company entered into a guarantee contract to serve as the guarantor for the bank loans borrowed from China Communication Bank Jinhua Branch in the amount of \$817,795 by Yongkang Angtai Trade Co., Ltd. (YATCL) for the period from January 6, 2013 to January 6, 2014. YATCL is not related to the Company. Under this guarantee contract, the Company agrees to perform all obligations of YATCL under the loan contracts if YATCL fails to perform its obligations as set forth therein. This guarantee contract was not renewed.

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 amounts of \$3,271,181 and \$6,542,362, respectively, by Nanlong Group Co., Ltd. (NGCL) for the periods 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.

(2) Pledged collateral for a third party bank loans

As of 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.

Critical Accounting Policies and Related Estimates That Could Have a Material Effect on Our Consolidated Financial Statements

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

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 the Company's 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. The Company had an allowance for doubtful accounts of \$0 for the years ended December 31, 2013 and 2012, in accordance with our management's judgment 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. There was a \$352,734 decline in net realizable value of inventory for the year ended of December 31, 2013 due to our provision for slow moving inventory.

Although the Company believes 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, the Company could realize significant write downs for slow-moving inventories or uncollectible accounts receivable.

Policy affecting recognition of revenue

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:

1. Persuasive evidence of an arrangement exists;

2. Delivery has occurred or services have been rendered;
3. The seller's price to the buyer is fixed or determinable; and
4. Collectability is reasonably assured.

The revenue recognition policies for our legacy products, including ATVs, go-karts, and EVs, are the same: When the products are delivered, the associated risk of loss is deemed transferred, and at that time the Company recognizes revenue.

Policy affecting options, warrants and convertible notes

The Company's stock option cost is recorded in accordance with ASC 718 and ASC 505. The fair value of stock options is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the option. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Stock option expense 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.

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 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. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

In accordance with ASC 815, the conversion feature of the convertible notes is separated from the debt instrument and accounted for separately as a derivative instrument. On the date the convertible notes are issued, the conversion feature is recorded as a liability at its fair value, and future decreases in fair value are recognized in earnings while increases in fair values are recognized in expenses. The Company used the Black-Scholes-Merton option-pricing model to obtain the fair value of the conversion feature. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the conversion features. The risk-free interest rate for the expected term of the conversion features is based on the U.S. Treasury yield curve in effect at the time of measurement.

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. 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 liability attributed to the quality of our products.

For the EV products that we sell in China, there is a 3 year or 50,000 kilometer manufacturer warranty. This warranty affects the Company through our participation and investment in the JV Company, which manufactures the EVs.

Item 8. Financial Statements and Supplementary Data.

KANDI TECHNOLOGIES GROUP, INC.

AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2013 AND 2012

KANDI TECHNOLOGIES GROUP, INC.

AND SUBSIDIARIES

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ALBERT WONG
B.Soc., Sc., ACA., LL.B.,
CPA(Practising)

To: The board of directors and stockholders of
Kandi Technologies Group, Inc. and Subsidiaries

Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheet of Kandi Technologies Group, Inc. and subsidiaries ("the Company") as of December 31, 2013 and 2012 and the related consolidated statements of income, stockholders' equity and cash flow for the years then ended. We have also audited the internal control over financial reporting of Kandi Technologies Group, Inc. and subsidiaries ("the Company") as of December 31, 2013, based on criteria established in the 1992 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audit. Our audit of, and opinion on, Kandi Technologies Group, Inc.'s internal control over financial reporting did not include internal control over financial reporting of Zhejiang Kandi Electric Vehicles Co. Ltd., a joint venture. As indicated in Management's Report, Zhejiang Kandi Electric Vehicles Co., Ltd. is a 50% owned joint venture of the Company established in March 2013 and is accounted as an equity method investment. The main operations of Zhejiang Kandi Electric Vehicles Co.,Ltd started on December 2013, and therefore, management's assertion of the effectiveness of Kandi Technologies Group, Inc.'s internal control over financial reporting excluded internal control over financial reporting of Zhejiang Kandi Electric Vehicles Co. Ltd.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness and significant deficiencies have been identified and included in management's assessment as of

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December 31, 2013:

- Ineffective control environment significant control deficiencies were identified in various components of internal control, which, in aggregate, lead us to conclude that a material weakness exist in the control environment. The significant deficiencies noted in the control environment are summarized as follows:

1. Lack of adequate policies and procedures in internal audit function, which may potentially result in: (1) lack of communication between internal audit department and the Audit Committee and the Board of Directors; (2) insufficient internal audit work to ensure that the Company's policies and procedures have been carried out as planned.
2. There was no self-assessment performed by the Audit Committee to assess the effectiveness of the Audit Committee in oversight of management.
3. The internal control audit department reported to the CEO instead of the Audit Committee. Such reporting structure impaired the independence and objectivity of the internal control audit department.
4. Inadequate design of internal controls over the approval procedures for related party transactions.

The material weakness or significant deficiencies were considered in determining the nature, timing and extent of audit tests applied in our audit of the Company's consolidated financial statements for the year ended December 31, 2013, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kandi Technologies Group, Inc. as of December 31, 2013 and 2012 and the consolidated results of its operations and its cash flow for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, because of the effect of the material weakness describe above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Hong Kong, China
March 15, 2014

/s/ Albert Wong & Co.
Certified Public Accountants

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KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS

| | December 31, 2013 | December 31, 2012 |
|--|------------------------------|------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 12,762,369 | \$ 12,135,096 |
| Restricted cash | 1,636 | 15,835,364 |
| Accounts receivable | 31,370,862 | 33,557,534 |
| Inventories (net of provision for slow moving inventory of \$352,734 and \$56,248 as of December 31, 2013 and 2012 respectively) | 9,187,714 | 7,630,715 |
| Notes receivable | 13,794,094 | 9,562,429 |
| Other receivables | 556,904 | 501,448 |
| Prepayments and prepaid expenses | 505,513 | 563,861 |
| Due from employees | 34,272 | 40,936 |
| Advances to suppliers | 8,867,074 | 4,769,825 |
| Amount due from JV Company, net | 2,917,592 | - |
| Deferred tax | 13,706 | - |
| Deposit for acquisition | - | 24,397,967 |
| Total Current Assets | 80,011,736 | 108,995,175 |
| LONG-TERM ASSETS | | |
| Plant and equipment, net | 29,333,516 | 35,725,740 |
| Land use rights, net | 14,453,191 | 14,337,691 |
| Construction in progress | 16,356 | - |
| Deferred taxes | 81,076 | 695 |
| Investment in associated company | 96,838 | 161,507 |
| Investment in JV Company | 79,331,930 | - |
| Goodwill | 322,591 | 322,591 |
| Intangible assets | 659,496 | 741,591 |
| Total Long-Term Assets | 124,294,994 | 51,289,815 |
| TOTAL ASSETS | \$ 204,306,730 | \$ 160,284,990 |

See notes to consolidated financial statements

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

LIABILITIES AND STOCKHOLDERS' EQUITY

| | December 31, 2013 | December 31, 2012 |
|--|-----------------------|-----------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 22,843,143 | \$ 8,668,478 |
| Other payables and accrued expenses | 2,422,613 | 3,092,045 |
| Short-term bank loans | 34,020,281 | 32,615,063 |
| Customer deposits | 44,404 | 292,389 |
| Notes payable | 16,683,023 | 25,332,088 |
| Income tax payable | 1,362,828 | 680,253 |
| Due to employees | 10,297 | 7,132 |
| Due to related party | - | 841,251 |
| Deferred taxes | - | 55,166 |
| Financial derivate - liability | 9,256,827 | 1,513,013 |
| Total Current Liabilities | 86,643,416 | 73,096,878 |
| LONG-TERM LIABILITIES | | |
| Deferred tax | 1,009,477 | - |
| Bond payable | 13,084,724 | 12,666,044 |
| Financial derivatives - liability | 15,042,994 | - |
| Total Long-Term Liabilities | 29,137,195 | 12,666,044 |
| TOTAL LIABILITIES | 115,780,611 | 85,762,922 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 37,012,904 and 31,696,794 shares issued and outstanding at December 31, 2013 and December 31, 2012, respectively | 37,013 | 31,697 |
| Additional paid-in capital | 76,754,774 | 43,728,218 |
| Retained earnings (the restricted portion is \$3,807,551 and \$2,831,005 at December 31, 2013 and December 31, 2012, respectively) | 4,119,086 | 25,259,809 |
| Accumulated other comprehensive income | 7,615,246 | 5,502,344 |
| TOTAL STOCKHOLDERS' EQUITY | 88,526,119 | 74,522,068 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 204,306,730 | \$ 160,284,990 |

See notes to consolidated financial statements

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

| | 2013 | 2012 |
|--|------------------|---------------|
| REVENUES, NET | \$ 94,536,045 | \$ 64,513,670 |
| COST OF GOODS SOLD | (72,793,517) | (51,620,280) |
| GROSS PROFIT | 21,742,528 | 12,893,390 |
| Research and development | (3,728,730) | (2,877,283) |
| Selling and marketing | (399,504) | (455,983) |
| General and administrative | (16,056,107) | (4,250,832) |
| INCOME FROM CONTINUING OPERATIONS | 1,558,187 | 5,309,292 |
| Interest income | 1,516,477 | 2,658,104 |
| Interest (expense) | (4,395,353) | (2,775,891) |
| Government grants | 228,396 | 132,139 |
| Other, net | 676,257 | 332,936 |
| Change in fair value of financial instruments | (16,647,283) | 1,986,063 |
| Share of (loss) in associated companies | (69,056) | (69,429) |
| Share of profit after tax of JV | (2,414,354) | - |
| INCOME (LOSS) BEFORE INCOME TAXES | (19,546,729) | 7,573,214 |
| INCOME TAX EXPENSE | (1,593,994) | (1,523,735) |
| NET (LOSS) INCOME | (21,140,723) | 6,049,479 |
| OTHER COMPREHENSIVE INCOME | | |
| Foreign currency translation | 2,112,902 | 424,623 |
| COMPREHENSIVE INCOME | \$ (19,027,821) | \$ 6,474,102 |
| WEIGHTED AVERAGE SHARES OUTSTANDING BASIC | 34,707,973 | 29,439,328 |
| WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED | 34,707,973 | 29,677,325 |
| NET INCOME PER SHARE, BASIC | \$ (0.61) | \$ 0.21 |
| NET INCOME PER SHARE, DILUTED | \$ (0.61) | \$ 0.20 |

See notes to consolidated financial statements

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | Common Stock Shares | Common Stock Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|------------------------|---------------------------|----------------------------------|----------------------|---|------------------|
| <u>BALANCE</u> | | | | | | |
| <u>AT</u> | | | | | | |
| <u>DECEMBER</u> | | | | | | |
| <u>31, 2011</u> | 27,445,600 | \$ 27,446 | \$ 31,533,378 | \$ 19,210,330 | \$ 5,077,721 | \$ 55,848,875 |
| Stock issuance, warrant and stock option exercise | 4,251,194 | 4,251 | 11,543,320 | - | - | 11,547,571 |
| Deferred tax effect | - | - | (78,689) | - | - | (78,689) |
| Stock option issued | - | - | 19,053 | - | - | 19,053 |
| Acquisition of SCROU | - | - | 711,156 | - | - | 711,156 |
| Foreign currency translation gain | - | - | - | - | 424,623 | 424,623 |
| Net income | - | - | - | 6,049,479 | - | 6,049,479 |
| <u>BALANCE</u> | | | | | | |
| <u>AT</u> | | | | | | |
| <u>DECEMBER</u> | | | | | | |
| <u>31, 2012</u> | 31,696,794 | \$ 31,697 | \$ 43,728,218 | \$ 25,259,809 | \$ 5,502,344 | \$ 74,522,068 |
| Stock issuance and award | 4,396,036 | 4,396 | 28,983,299 | - | - | 28,987,695 |
| Warrant exercise | 920,074 | 920 | 4,089,720 | - | - | 4,090,640 |
| Deferred tax effect | - | - | (46,463) | - | - | (46,463) |
| Foreign currency translation | - | - | - | - | 2,112,902 | 2,112,902 |
| Net income | - | - | - | (21,140,723) | - | (21,140,723) |
| <u>BALANCE</u> | | | | | | |
| <u>AT</u> | | | | | | |
| <u>DECEMBER</u> | | | | | | |
| <u>31, 2013</u> | 37,012,904 | 37,013 | 76,754,774 | 4,119,086 | 7,615,246 | 88,526,119 |

See notes to consolidated financial statements

KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 |
|--|-------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | \$ (21,140,723) | \$ 6,049,479 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,708,923 | 4,978,626 |
| Assets impairments | 355,876 | 465,199 |
| Deferred taxes | 876,255 | 92,521 |
| Change in value of financial instruments | 16,647,283 | (1,986,063) |
| Loss in investment in associated company | 69,056 | 69,429 |
| Share of profit after tax of JV | 2,414,354 | - |
| Option cost | - | 19,053 |
| Changes in operating assets and liabilities, net of effects of acquisition: | | |
| (Increase) Decrease In: | | |
| Accounts receivable | 3,251,168 | (20,513,099) |
| Inventories | (1,287,045) | (904,355) |
| Other receivables | (38,491) | 1,955,055 |
| Due from employees | 10,797 | 37,117 |
| Prepayments and prepaid expenses | (3,810,447) | (4,285,489) |
| Amount due from JV | (2,877,972) | - |
| Increase (Decrease) In: | | |
| Accounts payable | 13,699,528 | 3,566,354 |
| Other payables and accrued liabilities | (746,838) | (50,333) |
| Customer deposits | (254,151) | (740,419) |
| Income tax payable | 651,124 | 525,030 |
| Due to related party | (841,251) | - |
| Net cash (used in) provided by operating activities | 14,687,446 | (10,721,895) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| (Purchases)/Disposal of plant and equipment, net | (158,830) | (9,072,230) |
| Purchases of construction in progress | (16,134) | - |
| Deposit for acquisition | - | (24,383,529) |
| Asset acquisition, net of deposit | (39,673,000) | - |
| Disposal of subsidiary | 64,535,177 | - |
| Issuance of notes receivable | (4,174,247) | (1,011,821) |
| Repayments of notes receivable | 311,844 | 29,603,171 |
| Investment in JV | (80,668,972) | - |
| Cash acquired in acquisition | - | 112,551 |
| Net cash provided by (used in) investing activities | (59,844,162) | (4,751,858) |

See notes to consolidated financial statements

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

| | 2013 | 2012 |
|---|----------------------|----------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Restricted cash | 16,135,044 | (9,143,907) |
| Proceeds from short-term bank loans | 52,918,845 | 41,504,215 |
| Repayments of short-term bank loans | (52,596,170) | (45,539,128) |
| Proceeds from notes payable | 83,251,992 | 40,491,531 |
| Repayments of notes payable | (92,609,593) | (21,063,559) |
| Proceeds from bond payable | 12,907,035 | 12,658,548 |
| Repayments of bond payable | (12,907,035) | - |
| Fund raising through issuing common stock and warrants | 26,387,498 | - |
| Option exercise, stock award & other financing | 9,659,103 | 1,258,231 |
| Warrant exercise | 3,171,259 | 1,672,739 |
| Common stock issued for acquisition, net of cost of capital | - | 3,784,149 |
| Net cash provided by financing activities | 46,317,978 | 25,622,819 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | |
| | 1,161,262 | 10,149,066 |
| Effect of exchange rate changes on cash | (533,989) | (308,322) |
| Cash and cash equivalents at beginning of year | 12,135,096 | 2,294,352 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 12,762,369 | \$ 12,135,096 |
| SUPPLEMENTARY CASH FLOW INFORMATION | | |
| Income taxes paid | \$ 942,870 | \$ 998,706 |
| Interest paid | \$ 3,565,496 | \$ 2,570,691 |
| Issuance of Common stock for acquisition | \$ - | 8,616,416 |

SUPPLEMENTAL NON-CASH DISCLOSURES:

During the years ended December 31, 2013 and 2012, \$0 and \$10,078,637 were transferred from construction in progress to plant and equipment, respectively.

See notes to consolidated financial statements

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

The Company was incorporated under the laws of the State of Delaware on March 31, 2004. The Company changed its name from Stone Mountain Resources, Inc. to Kandi Technologies, Corp. on August 13, 2007. On December 21, 2012, the Company changed its name to Kandi Technologies Group, Inc.

Headquartered in the Jinhua city, Zhejiang Province, China, the Company is one of China's leading producers and manufacturers of electrical vehicles, all-terrain vehicles, go-karts, specialized utility vehicles and a variety of other specialty vehicles for sale in the PRC and global markets. The Company conducts its primary business operations through its wholly-owned subsidiary, Zhejiang Kandi Vehicles Co., Ltd. (Kandi Vehicles) and the partial and wholly-owned subsidiaries of Kandi Vehicles.

The Company's organizational chart is as follows:

Operating Subsidiaries

In January 2011, pursuant to relevant agreements, Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests (100% profits and loss absorption rate) of Kandi New Energy.

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, has a 30% ownership interest in Jinhua Service.

In April 2012, pursuant to a share exchange agreement, the Company acquired 100% of Yongkang Scrou Electric Co. (Yongkang Scrou), a manufacturer of driving motor, air-conditioning and controllers for electric vehicles and auto generators.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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 Maple*), a 99% owned subsidiary of Geely Automobile Holdings Ltd. (*Geely*), the parties established Zhejiang Kandi Electric Vehicles Co., Ltd. (the *JV Company*) in connection with developing, manufacturing and selling electrical vehicles (*EVs*) and related auto parts. Each of Kandi Vehicles and Shanghai Maple has a 50% ownership interest in the *JV Company*.

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 specializes in the production of *EVs*. In fourth quarter of 2013, Kandi Vehicle entered into an ownership transfer agreement with *JV Company* to transfer 100% ownership to Kandi Changxing to the *JV Company*. Company, indirectly, through its wholly-owned subsidiary, Kandi Vehicles, has a 50% ownership interest in Kandi Changxing.

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

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 wholly-owned subsidiary, Kandi Vehicles, has a 9.5% ownership 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 wholly-owned subsidiary, Kandi Vehicles, has a 50% ownership 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 wholly-owned subsidiary, Kandi Vehicles, has a 50% ownership interest in *JiHeKang*.

In December 2013, the *JV Company* entered into an ownership transfer agreement with Shanghai Maple in connection with acquiring 100% ownership of Kandi Electric Vehicles (Shanghai) Co., Ltd. (*Kandi Shanghai*). Kandi Shanghai is a wholly-owned subsidiary of the *JV Company*, and the Company, indirectly, through its 50% ownership interest in the *JV Company* owns 50% of Kandi Shanghai.

The Company's primary business operations are the design, development, manufacturing, and commercialization of *EVs*, all-terrain vehicles (*ATVs*), go-karts, and other related specialized automobiles. As part of our strategic objective to become a leader in electric vehicles manufacturing and related services, we have increased our focus on fuel efficient, pure electrical vehicles with a particular emphasis on expanding our market share in China.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2 - LIQUIDITY

The Company had a working capital deficit of (\$6,631,680) as of December 31, 2013, decrease from a working capital surplus of \$35,898,297 as of December 31, 2012.

As of December 31, 2013, the amount of advances to suppliers was \$8,867,074, which included the advance of a RMB 47 million (\$7,687,275) deposit by Kandi Electric Vehicles (Wanning) Co., Ltd (Kandi Wanning) to Nanjing Shangdong Auto Technologies Co., Ltd. (Nanjing Shangdong) for an equipment purchase. Kandi Wanning and Nanjing Shangdong entered into a letter of intent contemplating the purchase of equipment up to RMB 180 million. The equipment will be purchased and delivered according to the construction schedule and development of Kandi Wanning. This advance will be used to off-set the equipment purchase price upon delivery.

In fiscal year 2013, Kandi Changxing prepaid RMB 130 million to Zhejiang New Energy Auto System Co., Ltd. (Zhejiang New Energy) with the intent to acquire molds and equipment from Zhejiang New Energy, but the transaction did not close, and the advance was returned in full to Kandi Changxing.

As of December 31, 2013, the Company had credit lines from commercial banks for \$56,100,752, of which \$34,020,281 had been used as of December 31, 2013. The Company believes that its cash flows generated internally may not be sufficient to support growth of future operations and repay short-term bank loans for the next twelve (12) months, if needed. However, the Company believes its access to existing financing sources and established relationships with PRC banks will enable it to meet its obligations and fund its ongoing operations.

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

On June 26, 2013, the Company entered into a securities purchase agreement with certain institutional investors (the Investors) that closed on July 1, 2013, pursuant to which the Company sold to the Investors, in a registered direct offering, an aggregate of 4,376,036 shares of our common stock at a negotiated purchase price of \$6.03 per share, for aggregate gross proceeds of approximately \$26,387,500, before deducting fees to the placement agent and other estimated offering expenses payable by the Company. As part of the transaction, the Investors also received Series A warrants for the purchase of up to 1,750,415 shares of our 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 our 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 our common stock at an exercise price of \$8.69.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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.

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, Ltd. (Continental) (a wholly-owned subsidiary of the Company)
 - (ii) Zhejiang Kandi Vehicles Co., Ltd. (Kandi Vehicles) (a wholly-owned subsidiary of Continental)
 - (iii) Jinhua Three Parties New Energy Vehicles Service Co., Ltd. (Jinhua Service) (a 30% owned subsidiary of Kandi Vehicles)
 - (iv) Jinhua Kandi New Energy Vehicles Co., Ltd. (Kandi New Energy) (a 50% owned subsidiary of Kandi Vehicles)
 - (v) Yongkang Scrou Electric. Co., Ltd (Yongkang Scrou) (a wholly-owned subsidiary of Kandi Vehicles)
 - (vi) Kandi Electric Vehicles (Changxing) Co., Ltd. (Kandi Changxing) (a wholly-owned subsidiary of the JV Company)
 - (vii) Zhejiang Kandi Electric Vehicles Co.,Ltd. (the JV Company) (a 50% owned subsidiary of Kandi Vehicles)
 - (viii) Kandi Electric Vehicles (Wanning) Co., Ltd. (Kandi Wanning) (a subsidiary 10% owned by Kandi New Energy and 90% owned by Kandi Vehicles)
 - (ix) Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. (the Service Company) (a 19% owned subsidiary of the JV Company).
 - (x) Zhejiang Kandi Electric Vehicles Jinhua Co., Ltd. (Kandi Jinhua) (a wholly-owned subsidiary of the JV Company)
 - (xi) Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. (JiHeKang) (a wholly-owned subsidiary of the JV Company)
 - (xii) Kandi Electric Vehicles (Shanghai) Co., Ltd. (Kandi Shanghai) (a wholly-owned subsidiary of the JV Company)
- Inter-company accounts and transactions have been eliminated in consolidation.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Economic and Political Risks

The Company's operations are conducted in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC economy.

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

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among 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 Fair Value Measurement and Disclosures establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

These tiers include:

- Level 1 defined as observable inputs such as quoted prices in active markets;
- Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of December 31, 2013 are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | Fair Value Measurements at Reporting Date Using Quoted Prices in | | | |
|---------------------------|--|---|---|---|
| | Carrying value as of December 31, 2013 | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and cash equivalents | \$ 12,762,369 | \$ 12,762,369 | - | - |
| Restricted cash | \$ 1,636 | 1,636 | - | - |
| Warrants (liability) | \$ 24,299,821 | - | - | \$ 24,299,821 |

Cash and cash equivalents consist primarily of high-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 is 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 section (t) and (u).

(c) Cash and Cash Equivalents

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

Restricted cash on December 31, 2013 and 2012 represent time deposits on account, some of which were used to secure short-term bank loans and notes payable. As of December 31, 2013, our restricted cash was as set forth on the table below:

| Purpose | Amount |
|---|--------|
| Used to secure short-term bank loans (also see Note 15) | \$ - |
| Used to secure note payable (also see Note 16) | - |
| Pure time deposits | 1,636 |
| Total | 1,636 |

(d) Inventories

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(e) Accounts Receivable

Accounts receivable are recognized and carried at net realizable value. An allowance for doubtful accounts will be recorded in the period when a loss is probable based on an assessment of specific evidence indicating troubled collection, historical experience, accounts aging, ongoing business relation and other factors. Accounts are written off after exhaustive efforts at collection. If accounts receivable are to be provided for, or written off, they would be recognized in the consolidated statement of operations within operating expenses. At December 31, 2013 and 2012, the Company has no allowance for doubtful accounts, as per the management's judgment based on their best knowledge.

In year 2013 and 2012, the credit term usually was 90 to 120 days after delivery..

(f) Notes Receivable

Notes receivable represent short-term loans to third parties with the maximum term of one year. Interest income will be recognized according to each agreement between a borrower and the Company on accrual basis. If notes receivable are paid back, or written off, that 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 accrual for the related foreclosure expenses and related litigation expenses.

(g) Prepayments

Prepayments represent cash paid in advance to suppliers. As of December 31, 2013, prepayments included cash paid advances to raw material suppliers, mold manufactures, and suppliers of equipment. The Company intends to purchase, as a prepaid expense, certain other expenses such as water and electricity fees.

As of December 31, 2013, a significant prepayment made by the Company was the advance of a RMB 47 million (\$7,687,275) deposit by Kandi Wanning to Nanjing Shangtong as described in Note 2.

Other advances for raw materials purchases which usually are settled within two (2) months by receiving raw materials.

(h) Plant and Equipment

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

| | |
|------------------|----------|
| Buildings | 30 years |
| Machinery | 10 years |
| Motor vehicles | 5 years |
| Office equipment | 5 years |
| Molds | 5 years |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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

(i) Construction in Progress

Construction in progress represents direct costs of construction or the acquisition 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 the laws of China, land in the PRC is owned by the government and its ownership cannot be sold to an individual or 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 lease term of fifty (50) 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.

(l) Revenue Recognition

Revenues represent the invoiced value of goods sold recognized upon the shipment of goods to customers. Revenues are recognized when all of the following criteria are met:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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

(m) Research and Development

Expenditures relating to the development of new products and processes, including significant improvement to existing products, are expensed as incurred. Research and development expenses were \$3,728,730 and \$2,877,283 for the years ended December 31, 2013 and 2012, respectively.

(n) Government Grant

Grants received from the PRC Government for assisting in the Company's technical research and development efforts are recorded when the proceeds are received or collectible.

During 2013 and 2012, \$228,396 and \$132,139, respectively, were received from the PRC government as a reward for the Company's contribution to the local economy.

(o) Income Taxes

The Company accounts for income tax using an asset and liability approach and allows for recognition of deferred tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. 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.

(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 occur.

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 year, which obtained from website: <http://www.oanda.com>

| | December 31, | December 31, |
|--|---------------------|---------------------|
| | 2013 | 2012 |
| Year-end RMB : USD exchange rate | 6.1140 | 6.3161 |
| Average yearly RMB : USD exchange rate | 6.1982 | 6.3198 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(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 for the year in which such are obtained.

(r) Segments

In accordance with ASC subtopic 280-10 (ASC 280-10), Segment Reporting: Overall, 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; hence, 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 stock. The expected life assumption is primarily based on the expiration date of the option. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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

The stock option based expense for the year ended December 31, 2013 and 2012 is \$0 and \$19,053 respectively. Also see Note 20.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(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 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 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) Fair Value of Conversion features

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

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

(v) Goodwill

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

Application of the goodwill impairment test requires 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. We first assess qualitative factors to determine whether it is more likely than not that goodwill is impaired. If the more likely than not threshold is met, we perform a quantitative impairment test. At December 31, 2013, the Company determined that goodwill was not impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(w) Intangible assets

Intangible assets consist of the trade name 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 December 31, 2013.

NOTE 7 NEW ACCOUNTING PRONOUNCEMENTS

In January 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU clarifies that ordinary trade receivables and receivables are not in the scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification (Codification) or subject to a master netting arrangement or similar agreement. The FASB undertook this clarification project in response to concerns expressed by U.S. stakeholders about the standard's broad definition of financial instruments. After the standard was finalized, companies realized that many contracts have standard commercial provisions that would equate to a master netting arrangement, significantly increasing the cost of compliance at minimal value to financial statement users. An entity is required to apply the amendments in ASU 2013-01 for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of ASU 2011-11.

In February 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU improves the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP.

The new amendments will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). A private company is required to meet the reporting requirements of the amended paragraphs about the roll forward of accumulated other comprehensive income for both interim and annual reporting periods. However, private companies are only required to provide the information about the effect of reclassifications on line items of net income for annual reporting periods, not for interim reporting periods. The amendments are effective for reporting periods beginning after December 15, 2012, for public companies and are effective for reporting periods beginning after December 15, 2013, for private companies. Early adoption is permitted.

In February 2013, FASB issued Accounting Standards Update (ASU) No. 2013-03, Financial Instruments (Topic 825). This ASU clarifies the scope and applicability of a disclosure exemption that resulted from the issuance of Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendment clarifies that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed. This ASU is the final version of Proposed Accounting Standards Update 2013-200 Financial Instruments (Topic 825) which has been deleted. The amendments are effective upon issuance.

In February 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. This ASU provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. The amendments in this ASU should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this ASU) and should disclose that fact. Early adoption is permitted.

In March 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-05, Foreign Currency Matters (Topic 830). This ASU resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. This ASU is the final version of Proposed Accounting Standards Update EITF11Ar Foreign Currency Matters (Topic 830), which has been deleted. The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. For nonpublic entities the amendments in this Update are effective prospectively for the first annual period beginning after December 15, 2014, and interim and annual

periods thereafter. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

In July 2013, The FASB has issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carry forward Exists (a consensus of the FASB Emerging Issues Task Force).

U.S. GAAP does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

NOTE 8 CONCENTRATIONS

(a) Customers

The Company's major customers, each of whom accounted for more than 10% of our consolidated revenue, were as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | Sales | | Accounts Receivable | |
|--|---------------------------------------|---------------------------------------|---------------------|-------------------|
| | Twelve Months Ended December 31, 2013 | Twelve Months Ended December 31, 2012 | December 31, 2013 | December 31, 2012 |
| Major Customers | | | | |
| Jinhua Baoxiang Import & Export Co., Ltd | 24% | 33% | 15% | 21% |
| Shanghai Huapu Auto Co., Ltd | 23% | - | 52% | - |
| Zhejiang Jin Li Ma Trading Co., Ltd. | 14% | 12% | 8% | 8% |
| Jinhua Chaoneng Auto Sales Co., Ltd. | 10% | 7% | 7% | 8% |
| (b) Suppliers | | | | |

The Company's material suppliers, each of whom accounted for more than 10% of our total purchases, were as follows:

| | Purchases | | Accounts Payable | |
|---|---------------------------------------|---------------------------------------|-------------------|-------------------|
| | Twelve Months Ended December 31, 2013 | Twelve Months Ended December 31, 2012 | December 31, 2013 | December 31, 2012 |
| Major Suppliers | | | | |
| Zhejiang New Energy Auto System Co., Ltd. | 33% | 26% | 12% | - |
| Zhejiang Mengdeli Electric Co., Ltd. | 32% | 32% | 13% | 4% |

NOTE 9 INCOME PER SHARE

The Company calculates earnings per share in accordance with ASC 260, Earnings Per Share, which requires a dual presentation of basic and diluted earnings per share. Basic earnings per share are computed using the weighted average number of shares outstanding during the fiscal year. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options, warrants and convertible note (using the if-converted method). For the fiscal year ended December 31, 2013, there are 0 potentially dilutive common shares because the Company recorded a net loss in 2013.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| Twelve months Ended December 31, | 2013 | 2012 |
|---|-----------------|--------------|
| Net (loss) income | \$ (21,140,723) | \$ 6,049,479 |
| Weighted average shares of common stock outstanding | | |
| Basic | 34,707,973 | 29,439,328 |
| Dilutive shares | 0 | 237,997 |
| Diluted | 34,707,973 | 29,677,325 |
| Basic earnings per share | \$ (0.61) | \$ 0.21 |
| Diluted earnings per share | \$ (0.61) | \$ 0.20 |

Also see Note 19.

NOTE 10 - INVENTORIES

Inventories are summarized as follows:

| | December 31, | December 31, |
|--|---------------------|---------------------|
| | 2013 | 2012 |
| Raw material | \$ 2,646,041 | \$ 2,278,096 |
| Work-in-progress | 5,065,126 | 3,649,414 |
| Finished goods | 1,829,281 | 1,759,453 |
| Total inventories | 9,540,448 | 7,686,963 |
| Less: provision for slowing moving inventories | (352,734) | (56,248) |
| Inventories, net | \$ 9,187,714 | \$ 7,630,715 |

NOTE 11 - ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

| | December 31, | December 31, |
|------------------------------------|---------------------|---------------------|
| | 2013 | 2012 |
| Accounts receivable | \$ 31,370,862 | \$ 33,557,534 |
| Less: Provision for doubtful debts | - | - |
| Accounts receivable, net | \$ 31,370,862 | \$ 33,557,534 |

During fiscal year ended December 31, 2013, the Company sold products to Kandi USA Inc. carrying trade name of Eliteway Motorsports (Eliteway) amounting to \$6,906,807 (2012:\$5,297,548). At the fiscal year ended 2013, outstanding receivable due from Eliteway was \$2,800,958 (2012:\$2,678,349).

Mr. Hu Wangyuan was the sole shareholder and officer of Eliteway which served as a US 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 year ended December 31, 2013, Eliteway and Mr. Hu Wangyuan were financially independent from the Company. The transactions between the Company and Eliteway were carried at arm's-length without preferential terms comparing with other customers at the comparative order size or volume.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 12 - NOTES RECEIVABLE

Notes receivable are summarized as follows:

| | December 31, 2013 | December 31, 2012 |
|---|------------------------------|------------------------------|
| Notes receivable from unrelated companies: | | |
| Due September 30, 2014, interest at 9.6% per annum ¹ | 13,794,094 | 9,562,429 |
| Notes receivable from unrelated companies | 13,794,094 | 9,562,429 |
| Bank acceptance notes: | | |
| Bank acceptance notes | - | - |
| Notes receivable | \$ 13,794,094 | \$ 9,562,429 |

Notes receivable are unsecured.

Details of Notes receivable from unrelated parties as of December 31, 2012

| Amount(\$) | Counter party | Relationship | Purpose of Loan | Manner of settlement |
|--------------|--|--------------------------------|----------------------------|---|
| 1) 9,562,429 | Yongkang HuiFeng Guarantee Co., Ltd | No relationship beyond loan | Receive interest income | Repaid part in cash and renewed on the due date |

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

| 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 |

NOTE 13 LAND USE RIGHTS

Land use rights consist of the following:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | December 31, 2013 | December 31, 2012 |
|--------------------------------|------------------------------|------------------------------|
| Cost of land use rights | \$ 16,223,208 | \$ 15,697,132 |
| Less: Accumulated amortization | (1,770,017) | (1,359,441) |
| Land use rights, net | \$ 14,453,191 | \$ 14,337,691 |

As of December 31, 2013 and 2012, the net book value of land use rights pledged as collateral for the Company's bank loans was \$9,983,647 and \$7,313,642 respectively. Also see Note 16.

As of December 31, 2013 and 2012, the net book value of land use rights pledged as collateral for bank loans borrowed by Zhejiang Mengdeli Electric Co., Ltd (ZMEC), an unrelated party of the Company was \$0 and \$3,500,426, respectively. Also see Note 24.

It is a common business practice among companies in the region of China where Kandi is located to exchange guarantees for bank debt with no consideration given. It is considered a favor for favor business practice and is commonly required by the lending banks as in these cases. ZMEC has provided a guarantee for certain of the Company's bank loans. As of December 31, 2013, ZMEC had guaranteed bank loan of the Company for a total of \$16,028,786.

The amortization expense for the years ended December 31, 2013 and 2012 was \$353,568 and \$346,761, respectively.

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

| | |
|------------|---------------|
| 2014 | \$ 353,568 |
| 2015 | 353,568 |
| 2016 | 353,568 |
| 2017 | 353,568 |
| 2018 | 353,568 |
| Thereafter | 12,685,351 |
| Total | \$ 14,453,191 |

NOTE 14 PLANT AND EQUIPMENT

Plant and equipment consist of the following:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | December 31, 2013 | | December 31, 2012 | |
|---|--------------------------|--------------|--------------------------|--------------|
| At cost: | | | | |
| Buildings | \$ | 14,514,873 | \$ | 14,204,698 |
| Machinery and equipment | | 10,771,899 | | 10,396,243 |
| Office equipment | | 251,690 | | 230,073 |
| Motor vehicles | | 288,004 | | 255,648 |
| Moulds | | 34,230,014 | | 33,947,746 |
| | | 60,056,480 | | 59,034,408 |
| Less : Accumulated depreciation | | | | |
| Buildings | \$ | (3,010,451) | \$ | (2,439,546) |
| Machinery and equipment | | (10,278,409) | | (9,154,890) |
| Office equipment | | (196,303) | | (163,833) |
| Motor vehicles | | (228,442) | | (200,741) |
| Moulds | | (16,648,583) | | (11,349,658) |
| | | (30,362,188) | | (23,308,668) |
| Less: provision for impairment for fixed assets | | (360,776) | | - |
| Plant and equipment, net | \$ | 29,333,516 | \$ | 35,725,740 |

As of December 31, 2013 and 2012, the net book value of plant and equipment pledged as collateral for the Company's bank loans was \$11,292,649 and \$8,711,583, respectively.

As of December 31, 2013 and 2012, the net book value of plant and equipment pledged as collateral for bank loans borrowed by Zhejiang Mengdeli Electric Co., Ltd. (ZMEC), an unrelated party of the Company was \$0 and \$2,834,569, respectively. Also see Note 24.

Also see Note 15. Depreciation expense for the years ended December 31, 2013 and 2012 was \$7,273,260 and \$4,577,092, respectively.

NOTE 15 - DUE TO/FROM RELATED PARTIES

Due to Related Party

| | 2013 | | 2012 | |
|------------------------------|-------------|---|-------------|---------|
| ELIL(a) | \$ | - | \$ | 841,251 |
| Total due to a related party | \$ | - | \$ | 841,251 |

- (a) This amount payable represents certain costs during share exchange transaction, which were orally agreed to be borne by the former shareholder - Ever Lotts Investment Limited (ELIL). The Company's previous auditor determined that the amount should be represented as a payable, because there was no written documentation underlying the oral agreement. However, consistent with the Company's oral agreement, ELIL has never requested payment. The Company recently tried to contact ELIL in order to put our oral agreement in writing to release the Company's obligation for this payment, but we are unable to reach ELIL. Given the fact that several years have passed since initially recording the payable, combined with the lack of a payment claim by ELIL, the Company believes that it is no longer required to record the amount as a payable, because any potential, future claim would be barred by the applicable statute of limitations. Therefore, the Company wrote off this amount to non-operating income at the end of 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 16 SHORT-TERM BANK LOANS

Short-term loans are summarized as follows:

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Loans from China Communication Bank-Jinhua Branch | | |
| Monthly interest only payments at 7.50% per annum, due December 24, 2013 | \$ - | \$ 474,977 |
| Loans from Jinhua Bank (Called Commercial Bank in the past) | | |
| Monthly interest only payments at 6.89% per annum, due January 5, 2013, guaranteed by Zhejiang Kangli Metal Manufacturing Company, Mr. Hu Xiaoming, Ms. Ling Jiajia, and Ms. Ling Yueping. and secured by the assets of Jingdezheng De'er Investment Industrial Co., Ltd. (subsequently repaid on due date) | - | 3,166,511 |
| Monthly interest only payments at 6.30% per annum, due October 10, 2013, guaranteed by Mr. Hu Xiaoming, and Ms. Ling Yueping, and secured by the assets of the Company. | - | 1,583,256 |
| Monthly interest only payments at 6.30% per annum, due November 25, 2013, guaranteed by Mr. Hu Xiaoming, and Ms. Ling Yueping, and secured by the assets of the Company. | - | 791,628 |
| 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 13 and Note 14 | 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 13 and Note 14 | 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, Mr. Lv Qingjiang, and secured by the assets of the Company. Also see Note 13 and Note 14 | 3,271,181 | - |
| Loans from Yongkang Rural Cooperative Bank | | |
| Monthly interest only payments at 1.026% per month, due March 31, 2014, guaranteed by Yonnkang Sanli Metal Co., Ltd. | 817,795 | - |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Loans from China Ever-bright Bank

| | | |
|---|------------|-----------|
| Monthly interest only payments at 6.94% per annum, due January 25, 2013, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd. | - | 4,749,766 |
| Monthly interest only payments at 6.94% per annum, due February 13, 2013, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd. | - | 4,749,766 |
| Monthly interest only payments at 7.08% per annum, due December 4, 2013, 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. | - | 2,849,860 |
| 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. | | |
| Also see Note 13 and Note 14. | 12,757,606 | - |

Loans from Shanghai Pudong Development Bank

| | | |
|--|-----------|-----------|
| Monthly interest only payments at 6.94% per annum, due June 27, 2013, secured by the property of Ms. Ling Yueping, guaranteed by Yongkang KangBang auto parts Co., Ltd. and Mr. Hu Xiaoming. | - | 3,166,511 |
| Monthly interest only payments at 6.60% per annum, due July 18, 2013, secured by the property of Ms. Ling Yueping, guaranteed by Yongkang KangBang auto parts Co., Ltd. and Mr. Hu Xiaoming. | - | 3,166,511 |
| Monthly interest only payments at 6.60% per annum, due September 4, 2014, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming. Also see Note 13 and Note 14. | | |
| | 6,542,362 | - |

Loans from Bank of Shanghai

| | | |
|--|-----------|-----------|
| Monthly interest only payments at 6.60% per annum, due December 26, 2013, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Zhejiang Kangli Metal Manufacturing Company and Nanlong Group Co., Ltd. | - | 4,749,766 |
| 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 7.57% per annum, due April 24, 2013, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Zhejiang Shuguang industrial Co., Ltd. and Zhejiang Mengdeli Electric Company. | - | 3,166,511 |
| 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. | | |
| | 3,271,181 | - |
| Total | \$ 34,020,281 | \$ 32,615,063 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Short-term bank loan interest expense for the years ended December 31, 2013 and 2012 was \$2,302,389, and \$2,556,967, respectively.

As of December 31, 2013, the aggregate amount of short-term loans that were guaranteed or secured by various third parties was \$27,477,919. The breakdown is as follows:

- \$16,028,786 is guaranteed by Zhejiang Mengdeli Electric Co Ltd (ZMEC).

- \$8,177,952 is guaranteed by Zhejiang Kangli Metal Manufacturing Company, whose bank loan of \$4,906,771 is guaranteed by the Company. Also see Note 23. \$3,271,181 of the \$8,177,952 is guaranteed by Lv Qingjiang and Lv Qingbo, two major shareholders of Zhejiang Kangli Metal Manufacturing Company. Also see Note 24.

- \$3,271,181 is guaranteed by Zhejiang Shuguang industrial Co., Ltd., whose bank loan of \$4,906,771 is guaranteed by the Company. Also see Note 24.

- \$17,664,376 is guaranteed by Nanlong Group Co., Ltd. whose bank loans of \$9,813,543 is also guaranteed by the Company. Also see Note 24.

- \$817,795 is guaranteed by Yonnkang Sanli Metal Co., Ltd.

NOTE 17 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, depending on the requirements of the bank, the Company may need to deposit restricted cash in banks to back up the bank note payable, while the restricted cash deposited in banks will generate interest income.

Notes payable are summarized as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | December 31, 2013 | December 31, 2012 |
|---------------------------------------|----------------------|----------------------|
| Bank acceptance notes: | | |
| Due March 26, 2013 | \$ - | \$ 1,583,255 |
| Due March 26, 2013 | - | 1,583,255 |
| Due June 24, 2013 | - | 3,166,511 |
| Due June 24, 2013 | - | 6,333,023 |
| Due June 25, 2013 | - | 2,533,209 |
| Due June 25, 2013 | - | 10,132,835 |
| Due March 18, 2014 | 1,962,709 | - |
| Due May 19, 2014 | 8,177,952 | - |
| Due May 21, 2014 | 6,542,362 | - |
| Subtotal | \$ 16,683,023 | \$ 25,332,088 |
| Notes payable to unrelated companies: | | |
| | \$ - | \$ - |
| Subtotal | \$ - | \$ - |
| Total | \$ 16,683,023 | \$ 25,332,088 |

All the bank acceptance notes do not bear interest, but are subject to bank charges of 0.05% of the principal as commission on each transaction. Bank charges for notes payable were \$21,136 and \$20,246 in 2013 and 2012, respectively.

No restricted cash is held as collateral for the notes payable at December 31, 2013.

NOTE 18 BOND PAYABLE

| Due Date | Face Value | Coupon rate | Interest record date | Interest pay date |
|-------------------|------------|-------------|----------------------|-------------------|
| December 27, 2016 | 13,084,724 | 11.5% | 27 December | 27 December |
| Total face value | 13,084,724 | | | |

On December 27, 2012, the Company borrowed RMB 80,000,000 from China Ever-bright Securities Co. Ltd. The maturity date is December 27, 2015 and no principal payments are required prior to maturity. The interest rate was 12% and interest was payable on December 27 in each of 2013, 2014 and 2015. The obligation was secured by an unrelated third party.

In August 2013, the Company repaid, without a prepayment penalty, all principal and interest to China Ever-bright Securities Co. Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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On December 27, 2013, the Company issued the bond of RMB 80,000,000 (\$13,084,724) to China Ever-bright Securities Co. Ltd. and CITIC Securities Company Limited. The maturity of this bond is 3 years, and the material terms of this bond are similar as the terms of the bond issued in 2012 and repaid in August 2013, except that the interest rate is reduced to 11.5% . Bond interest was payable on December 27 in each of 2014, 2015 and 2016.

NOTE 19 TAXES

(a) Corporation Income Tax

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

Kandi New Energy is a subsidiary of the Company and its applicable corporate income tax rate is 25%.

Yongkang Scrou Electric. Co., Ltd is a subsidiary of the Company and its applicable corporate income tax rate was 25%.

Kandi Electric Vehicles (Wanning) Co., Ltd. is a subsidiary of the Company and its applicable corporate income tax rate is 25%.

Zhejiang Kandi Electric Vehicles Co., Ltd is a joint venture company (the JV Company). The Company has a 50% ownership interest in the JV Company and its applicable corporate income tax is 25%.

Kandi Electric Vehicles (Changxing) Co., Ltd. is a subsidiary of the JV Company and its applicable corporate income tax rate is 25%.

Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. is a 19% investment of the JV Company and its applicable corporate income tax rate is 25%.

Zhejiang Kandi Electric Vehicles Jinhua Co., Ltd. is a subsidiary of the JV Company and its applicable corporate income tax rate is 25%.

Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. is a subsidiary of the JV Company and its applicable corporate income tax rate is 25%.

Kandi Electric Vehicles (Shanghai) Co., Ltd. is a subsidiary of the JV Company and its applicable corporate income tax rate is 25%.

The Company, qualified as a high technology company in China, was entitled to pay CIT at a reduced income tax rate of 15%. After combining with the research and development tax credit (RDTC) of 25% on certain qualified research and development expenses, the final effective qualified high technology company reduced income tax rate was 16.68% . The combined tax benefits (CTB) were 50.1% of the corporate income tax amount. The actual effective income tax rate was reduced from 25% to 12.48% of the 2013 taxable corporate income. The details of the tax reduction were as follows:

Calculation of Corporation Income Tax

Chinese tax law prohibits double tax benefits derived from taking the high technology reduction tax rate (HTTR) of 10% with the RDTC together. Accordingly, the Company must first compute its 2013 RDTC and deduct the RDTC before compute the HTTR so as to avoid taking two tax benefits together. Under the CIT tax computation guideline, the Company calculates its research and development tax base (RDTB), which is equal to 50% of its 2013 allowable research and development expenses. The 2013 RDTC is equal to the RDTB multiplied by the Company's corporate income tax rate of 25% (CIT), or 25% of the RDTB. Thus, the 2013 RDTC is equal to \$463,066.

Then, the Company must calculate its 2013 HTTR net of the RDTC benefits. Therefore, the Company reduced its 2013 taxable income by the amount of its RDTB in order to correctly compute the adjusted taxable income tax base (ATITB). The HTTR is equal to 10% of the ATITB, which for 2013 was equal to \$915,363. The 2013 CTB equaled to the 2013 HTTR plus the 2013 RDTC, or \$1,378,429. See the following reconciliation, which details the Company's 2013 net corporate income tax after exclusion of the CTB.

Research and Development Tax Credit:

| | | |
|--|-----------|----------------|
| 2013 Allowable Research and Development Tax Expenses | \$ | 3,704,531 |
| Multiply by: 50% Research and Development Tax Base | \$ | 1,852,266 |
| Multiply by: 25% Corporate Income Tax Rate | \$ | 463,066 |
| 2013 Research and Development Tax Credit | \$ | 463,066 |

High Technology Tax Reduction:

| | | |
|---|-----------|----------------|
| 2013 Taxable Income | \$ | 11,005,893 |
| Less: Avoidance of Double Tax Benefits | \$ | (1,852,266) |
| Adjusted High Technology Taxable Base | \$ | 9,153,627 |
| 2013 10% High Tech Tax Reduction | \$ | 915,363 |

Combined Tax Benefit:

| | | |
|--|-----------|------------------|
| 2013 Research and Development Tax Credit | \$ | 463,066 |
| 2013 High Tech Tax Reduction | \$ | 915,363 |
| 2013 Combined Tax Benefit | \$ | 1,378,429 |

2013 Net Corporate Income Tax:

| | | |
|--|-----------|------------------|
| 2013 Taxable Income | \$ | 11,005,893 |
| Multiply by: 2013 25% Corporate Income Tax Rate | \$ | 2,751,473 |
| Less: 2013 Combined Tax Benefit | \$ | (1,378,429) |
| 2013 Net Corporate Income Tax After Exclusion of Combined Tax Benefit | \$ | 1,373,044 |

Without any tax benefits, the Company's CIT was \$2,751,473 (the 2013 CIT). The final 2013 RDTC was \$463,066 or 16.83% of the 2013 CIT and the final 2013 HTTR was \$915,363 or 33.27% of the 2013 CIT. Accordingly, the 2013 CTB was \$1,378,429 or 50.1% of the 2013 CIT.

The unadjusted 2013 HTTR, was 10% of 2013 taxable income, or \$1,100,589. After recomputing the HTTR in accordance with the CIT tax computation guideline on the avoidance of double tax benefits, 2013 HTTR was then reduced to 8.32% of 2013 taxable income, or \$915,863.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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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) creates 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 on our 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 December 31, 2013, the Company does not have a liability for unrecognized tax benefits. The Company files income tax returns to the U.S. Internal Revenue Services (IRS) and states where the Company has operations. The Company is subject to U.S. federal or state income tax examinations by the IRS and relevant state tax authorities for years after 2006. During the periods open to examination, the Company has net operating loss carry forwards (NOLs) for U.S. federal and state tax purposes that have attributes from closed periods. Since these NOLs may be utilized in future periods, they remain subject to examination. The Company also files certain tax returns in China. As of December 31, 2013, the Company was not aware of any pending income tax examinations by U.S. and China tax authorities. The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2013, the Company has no accrued interest or penalties related to uncertain tax positions. The Company has not recorded a provision for U.S. federal income tax for the year ended December 31, 2013 due to the net operating loss in 2013 and an accumulated net operating loss carry forward from prior years in the United States.

Income tax expense for the years ended December 31, 2013 and 2012 is summarized as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | For the Year Ended December 31, | |
|----------------------------------|--|--------------|
| | 2013 | 2012 |
| Current: | | |
| Provision for CIT | \$ 1,593,994 | \$ 1,523,735 |
| Provision for Federal Income Tax | | |
| Deferred: | | |
| Provision for CIT | | |
| Income tax expense | \$ 1,593,994 | \$ 1,523,735 |

The Company's income tax expense differs from the expected tax expense for the years ended December 31, 2013 and 2012 (computed by applying the U.S. Federal Income Tax rate of 34% and PRC Corporation Income Tax rate of 25%, respectively to income before income taxes) as follows:

| | For the Year Ended December 31, | |
|------------------------------------|--|--------------|
| | 2013 | 2012 |
| Computed expected income (expense) | \$ (1,381,713) | \$ 651,245 |
| Favorable tax rate | (1,378,429) | (1,232,306) |
| Permanent differences | 361,230 | 932,699 |
| Valuation Allowance | 3,992,906 | 1,172,097 |
| Income tax expense | \$ 1,593,994 | \$ 1,523,735 |

The tax effects of temporary differences that give rise to the Company's net deferred tax assets and liabilities as of December 31, 2013 and 2012 are summarized as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | December 31, 2013 | December 31, 2012 |
|--|------------------------------|------------------------------|
| Current portion: | | |
| Deferred tax assets (liabilities): | | |
| Expense | \$ 47,224 | \$ (193,777) |
| Subtotal | 47,224 | (193,777) |
| Deferred tax assets (liabilities): | | |
| Sales cut-off difference derived from Value Added Tax reporting system to calculate PRC Corporation Income Tax in accordance with the PRC State Administration of Taxation | | |
| | (33,518) | 138,661 |
| Other | | |
| Subtotal | (33,518) | 138,661 |
| Total deferred tax assets (liabilities) current portion | 13,706 | (55,166) |
| Non-current portion: | | |
| Deferred tax assets: | | |
| Depreciation | 81,076 | 223,409 |
| Loss carried forward | 3,992,906 | 1,172,097 |
| Valuation allowance | (3,992,906) | (1,172,097) |
| Subtotal | 81,076 | 223,409 |
| Deferred tax liabilities: | | |
| Accumulated other comprehensive gain | (1,009,477) | (222,714) |
| Subtotal | (1,009,477) | (222,714) |
| Total deferred tax assets non-current portion | (928,401) | 695 |
| Net deferred tax (liabilities) assets | \$ (914,695) | \$ (54,471) |

(b) Tax Holiday Effect

For the years ended December 31, 2013 and 2012, the PRC corporate income tax rate was 25%. Certain subsidiaries of the Company are entitled to tax exemptions (tax holidays) for the years ended December 31, 2013 and 2012.

The combined effects of the income tax expense exemptions and reductions available to the Company for the years ended December 31, 2013 and 2012 are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | For the Year Ended December 31 | |
|-----------------------------------|---|--------------|
| | 2013 | 2012 |
| Tax holiday effect | \$ 1,378,429 | \$ 1,232,306 |
| Basic net income per share effect | \$ 0.04 | \$ 0.04 |

NOTE 20 - 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 for 2,600,000 shares of common stock to ten of the Company's employees and directors. The stock options vest ratably over three years and expire in ten years from the grant date. The Company valued the stock options at \$2,062,964 and amortized the stock compensation expense using the straight-line method over the service period from February 11, 2009 through February 11, 2012. The value of the options was estimated using the Black Scholes Model with an expected volatility of 164%, expected life of 10 years, risk-free interest rate of 2.76% and expected dividend yield of 0.00% . On June 30, 2011, one of the Company's directors resigned, and his 6,668 unexercised options were forfeited. As of December 31, 2013, options for 2,366,672 shares have been exercised and 6,668 options have 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 are to provide business development services in China to the Company 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, 250,000 of these options vested and become exercisable on March 6, 2010, and 100,000 vested and become exercisable on June 6, 2010. The options will expire after ten years. The options are issued under and subject to the terms of the Company's 2008 Omnibus Long-Term Incentive Plan.

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

| | Activity | Weighted Average Exercise Price |
|-------------------------------------|-----------------|--|
| Outstanding as of January 1, 2013 | 326,660 | \$ 1.01 |
| Granted | - | - |
| Exercised | - | - |
| Cancelled | - | - |
| Outstanding as of December 31, 2013 | 326,660 | 1.01 |

The following table summarizes information about stock options outstanding as of December 31, 2013:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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| Options Outstanding | | | Options Exercisable | | |
|---------------------|----------------|---------------------------------------|---------------------|----------------|--|
| Number of shares | Exercise Price | Remaining Contractual life (in years) | Number of shares | Exercise Price | |
| 226,660 | \$ 0.80 | 5.25 | 226,660 | \$ 0.80 | |
| 100,000 | 1.50 | 5.75 | 100,000 | 1.50 | |

The fair value per share of the 2,600,000 options issued to the employees and directors is \$0.7934 per share. The fair value per share of the unexercised 100,000 options issued to Wang Rui and Li Qiwen, which became exercisable on June 6, 2010, is \$3.44.

(b) Warrants and Convertible Notes

On September 21, 2009, the Company executed an agreement with a third-party consultant, whereby the consultant is to provide management consulting and advisory services for a period of 12 months, beginning on September 22, 2009, and ending on September 22, 2010. As compensation for the services provided, the Company agreed to issue 200,000 warrants to purchase the Company's common stock, with 100,000 of these warrants issued at an exercise price of \$2.00 per share and 100,000 of these warrants issued at an exercise price of \$2.50 per share. All of the warrants have a five year contractual term and were granted on October 22, 2009. The warrants vested in full and became exercisable on January 21, 2010, upon the closing of an initial round of financing. By the end of 2012, the consultant had cashless exercised all the 200,000 warrants.

Under a Securities Purchase Agreement, dated as of January 21, 2010 (the 2010 Securities Purchase Agreement), by and among the Company and certain investors thereto, the Company issued a total of \$10 million of senior secured convertible notes (the Convertible Notes) and warrants exercisable for an aggregate of 800,000 shares of the Company's common stock (the Investor Warrants), for gross proceeds of \$10 million. The Convertible Notes, which accrue interest at a rate of 6% per annum, will mature in two years following the closing date of the offering and are initially convertible, at the option of the holders, into shares of common stock at \$6.25 per share. As of January 21, 2010, the Convertible Notes were convertible into 1,600,000 shares of common stock at the price of \$6.25 per share. The Investor Warrants, which are exercisable for a period of three years following the closing date, were initially exercisable upon entering into the 2010 Securities Purchase Agreement at an exercise price of \$6.5625 per share. Included in the associated issuance costs is the fair value of 80,000 warrants issued to a placement agent. These warrants have the same terms and conditions as the Investor Warrants issued to the investors.

Pursuant to the terms of the Convertible Notes and the Investor Warrants, on May 18, 2010, the conversion price of the Convertible Notes was adjusted to \$3.5924 per share and the exercise price of the Investor Warrants and warrants issued to the placement agent was adjusted to \$4.3907 per share. On August 19, 2010, the conversion price of the Convertible Notes was adjusted to \$3.1146 per share and the exercise price of the Investor Warrants and warrants issued to the placement agent was adjusted to \$3.8067 per share. As a result, the number of Investor Warrants and warrants issued to the placement agent was adjusted to 1,379,148 and 137,915 respectively. As of December 31, 2013, the investors had converted all \$10 million principal amount and \$159,522 accrued interest of the Convertible Notes into an aggregate of 3,121,121 shares of Common Stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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As of December 31, 2013, 1,162,073 Investor Warrants and 124,123 warrants issued to the placement agent have been exercised. The remaining 217,075 Investor Warrants and 13,792 placement agent warrants were forfeited.

On December 21, 2010, the Company agreed to sell to certain institutional investors up to 3,027,272 shares of the Company's common stock and warrants to purchase up to 1,210,912 shares of the Company's common stock in fixed combination, with each combination consisting of one share of common stock and a warrant to purchase 0.40 shares of common stock in a registered direct public offering (the **Second Round Warrants**). The warrants became exercisable immediately following the closing date of the offering and remain exercisable for three years thereafter at an exercise price of \$6.30 per share. The exercise price of the Second Round Warrants was adjusted to \$5.40 on September 9, 2013 as a result of the registered direct offering that closed on July 1, 2013. On December 12, 2013, the expiration date of the Second Round Warrants was extended to June 30, 2014. As of December 31, 2013, the fair value of the Second Round Warrants is \$6.54 per share, and 327,272 of the Second Round Warrants have been exercised.

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 our 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 our 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 our 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 our 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 our common stock at an exercise price of \$7.24 per share (the **Third Round Placement Agent Warrants**). As of December 31, 2013, the fair value of Series A warrants is \$6.55 per share, the fair value of Series B warrants is \$4.77 per share, the fair value of Series C warrants is \$5.93 per share, and the Third Round Placement Agent Warrants' fair value is \$7.04 per share. In January 2014, all the Third Round Warrants were exercised on a cash basis.

NOTE 21 STOCK AWARD

In connection with his appointment to the Board of Directors, and as compensation for serving, the Board of Directors authorized the Company to provide Mr. Henry Yu with 5,000 shares of Company's restricted common stock every six months, par value \$0.001, beginning in July 2011.

As compensation for his services, the Board of Directors authorized the Company to provide Mr. Jerry Lewin with 5,000 shares of Company's restricted common stock every six months, par value \$0.001, beginning in August 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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As compensation for her services, the Board of Directors authorized the Company to provide Ms. Kewa Luo with 5,000 shares of Company's common stock every six months, par value \$0.001, beginning in September 2013.

The fair value of stock award based on service is determined based on closing price of the day that the shares are granted every six months. The compensation cost for awards of stock would be 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 for each fiscal year beginning with the 2013 fiscal year under the Company's 2008 Omnibus Long-Term Incentive Plan (the "Plan") to be delivered upon the Company's determination that the Company's "Non-GAAP Net Income" for the fiscal year increased by 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 2013 fiscal year increases by 10% compared to the Non-GAAP Net Income for the 2012 fiscal year, the selected executives and other key employees will each be granted his or her target amount of common stock of the Company at the end of March 2014. If Non-GAAP Net Income in 2013 is less than Non-GAAP Net Income in 2012, then no common stock will be granted. If Non-GAAP Net Income in 2013 increases compared to Non-GAAP Net Income in 2012 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 2013 increases compared to Non-GAAP Net Income in 2012 but the increase is more than 10%, then the target amount of the common stock grant will be proportionately increased.

The fair value of each award granted under 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 during 2013 would be 801,163 shares. The compensation is recognized in General and Administrative Expenses.

NOTE 22 INTANGIBLE ASSETS

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

| | Remaining useful life | December 31, 2013 | |
|--|-----------------------|--------------------------|----------------|
| Gross carrying amount: | | | |
| Trade name | 8 years | \$ | 492,235 |
| Customer relations | 8 years | | 304,086 |
| | | | 796,321 |
| Less : Accumulated amortization | | | |
| Trade name | | \$ | (84,576) |
| Customer relations | | | (52,249) |
| | | | (136,825) |
| Intangible assets, net | | \$ | 659,496 |

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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 and was \$82,095 and \$54,730 for the years ended December 31, 2013 and 2012, respectively.

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

| | | |
|------------|----|---------|
| 2014 | \$ | 82,095 |
| 2015 | | 82,095 |
| 2016 | | 82,095 |
| 2017 | | 82,095 |
| 2018 | | 82,095 |
| Thereafter | | 249,021 |
| Total | \$ | 659,496 |

NOTE 23 SUMMARIZED INFORMATION OF INVESTMENT IN THE JV COMPANY

The Company's investment in the JV Company is accounted for using the equity method of accounting. The JV Company has consolidated the following: (1) 100% interest in Kandi Changxing; (2) 100% interest in Kandi Jinhua; (3) 100% interest in JiHeKang; (4) 100% interest in Kandi Shanghai; and 19% interest in the Service Company.

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

| | 2013 | 2012 |
|---|---------------|------|
| Condensed income statement information: | | |
| Net sales | \$ 15,212,347 | \$ - |
| Gross (loss) | (1,279,914) | - |
| Net (loss) | (3,020,756) | - |
| Company's equity in net income of JV | (1,510,378) | - |
| Condensed balance sheet information: | | |
| Current assets | 108,139,053 | - |
| Noncurrent assets | 146,130,466 | - |
| Total assets | 254,269,519 | - |
| Current liabilities | 93,772,816 | - |
| Noncurrent liabilities | - | - |
| Equity | 160,496,703 | - |
| Total liabilities and equity | 254,269,519 | - |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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Changes in the Company's investment in JV Company for the year ended December 31, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|--|---------------|------|
| Condensed income statement information: | | |
| Investment in JV Company, beginning of the year, | \$ 81,779,522 | \$ - |
| (Loss) from equity investment | (1,510,378) | - |
| Intercompany transaction unrealized gain elimination | (903,976) | - |
| Exchange difference | (33,238) | - |
| Investment in JV Company, end of the year | 79,331,930 | - |

The following tables summarize the effects of transactions including sales and purchases with the JV Company:

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Sales to Kandi Electric Vehicles (Changxing) Co., Ltd. | \$ 11,223,823 | \$ - |
| Purchase from Kandi Electric Vehicles (Changxing) Co., Ltd. | 487,453 | - |

During fiscal year ended December 31, 2013, the Company sold and purchased products to and from Kandi Electric Vehicles (Changxing) Co., Ltd., one of the 100% owned subsidiary of the 50% joint venture investment of the Company, amounting to \$11,223,823 (2012:\$0) and \$487,453 (2012:\$0) respectively.

As of December 31, 2012 and 2013, significant balances with the JV Company were as follows:

| | December 31, 2013 | December 31, 2012 |
|--|----------------------|----------------------|
| Due from Kandi Electric Vehicles (Changxing) Co., Ltd. | \$ 1,576,408 | \$ - |
| Due from Zhejiang Kandi Electric Vehicles Co.,Ltd | 4,121,688 | - |
| Due (to) Zhejiang Kandi Electric Vehicles Jinhua Co.,Ltd | (2,780,504) | - |
| | \$ 2,917,592 | \$ - |

The amounts due from the JV Company as of December 31, 2012 and 2013 are not collateralized, interest-free and have normal business payment terms.

NOTE 24 - COMMITMENTS AND CONTINGENCIES

Guarantees and pledged collateral for third party bank loans

As of December 31, 2013, the Company provided guarantees for the following third parties:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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(1) Guarantees for bank loans

| Guarantee provided to | Amount |
|--|---------------|
| Zhejiang Kangli Metal Manufacturing Company. | \$ 4,906,771 |
| Zhejiang Shuguang industrial Co., Ltd. | 4,906,771 |
| Yongkang Angtai Trade Co., Ltd. | 817,795 |
| Nanlong Group Co., Ltd. | 9,813,543 |
| Total | \$ 20,444,880 |

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 \$4,906,771 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 February 26, 2013, the Company entered into a guarantee contract to serve as the guarantor for the bank loan borrowed from PingAn Bank in the amount of \$4,906,771 by Zhejiang Shuguang industrial Co., Ltd. (ZSICL) for the period from February 26, 2013 to February 26, 2014. 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 January 6, 2013, the Company entered into a guarantee contract to serve as the guarantor for the bank loans borrowed from China Communication Bank Jinhua Branch in the amount of \$817,795 by Yongkang Angtai Trade Co., Ltd. (YATCL) for the period from January 6, 2013 to January 6, 2014. YATCL is not related to the Company. Under this guarantee contract, the Company agrees to perform all obligations of YATCL under the loan contracts if YATCL 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 \$3,271,181 and \$6,542,362 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 contract if NGCL fails to perform its obligations as set forth therein.

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

As of 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 25 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 China.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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The following table sets forth revenues by geographic area

| | Year Ended December 31 | | | |
|-------------------------|-------------------------------|--------------------|---------------|-------------------|
| | 2013 | | 2012 | |
| | Sales Revenue | Long Lived Assets | Sales Revenue | Long Lived Assets |
| North America | \$ 6,906,807 | - | \$ 7,243,257 | - |
| Europe and other region | 2,394,948 | - | 1,639,990 | - |
| China | 85,234,290 | 124,294,994 | 55,630,423 | 51,289,815 |
| Total | \$ 94,536,045 | 124,294,994 | \$ 64,513,670 | 51,289,815 |

NOTE 26 - SUBSEQUENT EVENT

On January 15, 2014, the Company sold to the Investors warrants to purchase an aggregate of 1,429,393 shares of the Company's common stock, par value \$0.001 per share at an exercise price equal to \$15 (the Fourth Round Warrants) for a total purchase price paid by certain institution investors to the Company of approximately \$14,294. The Fourth Round Warrants became exercisable immediately following the closing date of this offering and will expire on January 30, 2015.

Part III

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Transactions with Related Persons

The Board of Directors must approve all related party transactions. All material related party transactions will be made or entered into on terms that are no less favorable to us than can be obtained from unaffiliated third parties.

The following table lists the amount due to related parties as of December 31, 2013 and 2012.

| | 2013 | 2012 |
|----------------------------|-------------|-------------|
| ELIL | \$ - | \$ 841,251 |
| Total due to related party | \$ - | \$ 841,251 |

This amount payable represents certain costs during a share exchange transaction, which were orally agreed to be paid by the former shareholder, Ever Lotts Investment Limited (ELIL). The Company's previous auditor determined that the amount should be represented as a payable, because there was no written documentation underlying the oral agreement. However, consistent with our oral agreement, ELIL has never requested payment. The Company recently tried to contact ELIL to put our oral agreement in writing and document the release of the Company's obligation for this payment, but we are unable to reach ELIL. Given the fact that several years have passed since initially recording the payable, combined with the lack of a payment claim by ELIL, we believe that the Company is no longer required to record the amount as a payable because any potential, future claim would be barred by the applicable statute of limitations. Therefore, we wrote off this amount to non-operating income at the end of 2013.

The following table lists the amount due from related parties as of December 31, 2013 and 2012.

| | 2013 | 2012 |
|------------------------------|--------------|--------------|
| Eliteway | \$ 2,800,958 | \$ 2,678,349 |
| Total due from related party | \$ 2,800,958 | \$ 2,678,349 |

During fiscal year ended December 31, 2013, the Company sold products to Kandi USA Inc. carrying trade name of Eliteway Motorsports (Eliteway) amounting to \$6,906,807 (2012:\$5,297,548). At the fiscal year ended 2013, outstanding receivable due from Eliteway was \$2,800,958 (2012: \$2,678,349).

Mr. Hu Wangyuan was the sole shareholder and officer of Eliteway which served as a US 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 year ended December 31, 2013, Eliteway and Mr. Hu Wangyuan were financially independent from the Company. The transactions between the Company and Eliteway were carried at arm's-length without preferential terms comparing with other customers at the comparative order size or volume.

Director Independence

Mr. Henry Yu, Chen Liming, Ni Guangzheng and Jerry Lewin are all non-employee directors, all of whom our Board of Directors has determined are independent pursuant to NASDAQ rules. All of the members of our Audit Committee, Nominating/Corporate Governance Committee and Compensation Committee are independent pursuant to NASDAQ rules.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act), the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KANDI TECHNOLOGIES, GROUP, INC.

May 16, 2014 By: /s/ Hu Xiaoming
 Name: Hu Xiaoming
 Title: President and Chief Executive Officer
 (Principal Executive Officer)

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Hu Xiaoming President, Chief Executive Officer May 16, 2014
 and
Hu Xiaoming Chairman of the Board (Principal
 Executive Officer)

/s/ Zhu Xiaoying Chief Financial Officer and Director May 16, 2014
Zhu Xiaoying (Principal Financial Officer and
 Principal Accounting Officer)

/s/ Chen Liming Director May 16, 2014
Chen Liming

/s/ Ni Guangzheng Director May 16, 2014
Ni Guangzheng

/s/ Jerry Lewin Director May 16, 2014
Jerry Lewin

/s/ Henry Yu Director May 16, 2014
Henry Yu

/s/ Qian Jingsong Director May 16, 2014
Qian Jingsong

Kandi Technologies Group, Inc.
Exhibit Index to Amendment No. 1 to Annual Report on Form 10-K
For the Year Ended December 31, 2013

| <u>No.</u> | <u>Description</u> |
|-------------------|--|
| 2.1 | Share Exchange Agreement, dated June 29, 2007, by and among Stone Mountain Resources, Inc., Continental Development Limited and Excelvantage Group Limited. [Incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 6, 2007] |
| 3.1 | Certificate of Incorporation. [Incorporated by reference from Exhibit 3.1 to Form SB-2 filed by the Company on April 1, 2005] |
| 3.2 | Certificate of Amendment of Certificate of Incorporation. (filed as Exhibit 4.2 to the Company's Form S-3, dated November 19, 2009; File No. 333-163222) |
| 3.3 | Certificate of Amendment of Certificate of Incorporation. (filed as Exhibit 3.1 to the Company's Form 8-K, dated December 21, 2012) |
| 3.4 | Amended and Restated Bylaws. [Incorporated by reference from Exhibit 3.2 to Form SB-2 filed by the Company on April 1, 2005] |
| 4.1 | Form of Warrant. [Incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 26, 2013] |
| 4.2 | Form of Warrant. [Incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 21, 2010] |
| 5.1 | Legal Opinion of K&L Gates LLP. [Incorporated by reference from Exhibit 5.1 to the Company's Current Report on Form 8-K filed on December 22, 2010] |
| 10.1 | Agreement on Business Operations between Zhejiang Kandi Vehicles Co., Ltd. and Zhejiang Yongkang Top Import & Export Co., Ltd. [Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 6, 2007] |
| 10.2 | Employment Contract, dated June 10, 2004, by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Hu Xiaoming. [Incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 6, 2007] |
| 10.3 | Employment Contract, dated July 10, 2004, by and between Zhejiang Kandi Vehicles Co., Ltd. and Ms. Zhu Xiaoying. [Incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 6, 2007] |
| 10.4 | Kandi Technologies, Corp. 2008 Omnibus Long-Term Incentive Plan [Incorporated by reference from Appendix A to the Company's Definitive Schedule 14A filed on November 24, 2008] |
| 10.5 | Securities Purchase Agreement, dated January 21, 2010, by and among the Company and certain institutional accredited investors [Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 21, 2010] |

10.6 Form of Senior Secured Convertible Note. [Incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 21 2010]

10.7 Form of Warrant. [Incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on January 21 2010]

- 10.8 Form of Registration Rights Agreement. [Incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed on January 21 2010]
- 10.9 Form of Pledge Agreement. [Incorporated by reference from Exhibit 10.5 to the Company's Current Report on Form 8-K filed on January 21 2010]
- 10.10 Voting Agreement, dated January 21, 2010, by and between the Company and Excelvantage Group Limited. [Incorporated by reference from Exhibit 10.6 to the Company's Current Report on Form 8-K filed on January 21 2010]
- 10.11 Placement Agreement, dated January 21, 2010, by and between the Company and FT Global Capital, Inc. [Incorporated by reference from Exhibit 10.7 to the Company's Current Report on Form 8-K filed on January 21 2010]
- 10.12 Joint Venture Agreement, dated September 28, 2010, by and among Jinhua Bada Group, Zhejiang Kandi Vehicles Co., Ltd., and Tianneng Power International Co., Ltd. [Incorporated by reference from Exhibit 10.1 to the Company's Form 10-Q filed on November 15, 2010]
- 10.13 Securities Purchase Agreement, dated December 21, 2010, by and among the Company and certain institutional investors. [Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2010]
- 10.14 The Agreement of Establishment Kandi New Energy Vehicles Co., Ltd., dated May 18, 2010, by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Hu Xiaoming, and its supplement, dated January 31, 2011. [Incorporated by reference from Exhibit 10.13 to the Company's Annual Report on Form 10-K filed on March 31, 2011]
- 10.15 The Share Escrow and Trust Agreement, dated May 18, 2010, by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Hu Xiaoming. [Incorporated by reference from Exhibit 10.14 to the Company's Annual Report on Form 10-K filed on March 31, 2011]
- 10.16 The Contractor Agreement, dated May 18, 2010, by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Hu Xiaoming. [Incorporated by reference from Exhibit 10.15 to the Company's Annual Report on Form 10-K filed on March 31, 2011]
- 10.17 Loan Agreement, dated January 31, 2011, by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Xiaoming Hu. [Incorporated by reference from Exhibit 10.1 to the Company's Form 10-Q filed on May 16, 2011]
- 10.18 Share Exchange Agreement, dated February 13, 2012, by and among, Kandi Technologies Corp., KO NGA Investment Limited and each of the shareholders of KO NGA Investment Limited. [Incorporated by reference from Exhibit 10.1 to the Company's Form 10-Q filed on May 15, 2012]
- 10.19 Sales Contract, dated September 29, 2012, by and between, Zhejiang Kandi Vehicles Co., Ltd. and China Aviation Lithium Battery (Hangzhou) Co., Ltd. [Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 1, 2012]
- 10.20 First Amendment to the Warrant To Purchase Common Stock. [Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 29, 2013]

10.21 Joint Venture Agreement of Establishment of Zhejiang Kandi Electric Vehicles Co., Ltd., by and between Zhejiang Kandi Vehicles Co., Ltd. and Shanghai Maple Guorun Automobile Co., Ltd., dated March 22, 2013.* [Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 14, 2013]

- 10.22 Form of Securities Purchase Agreement, dated June 26, 2013, by and among the Company and certain institutional accredited investors [Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 26,2013]
- 10.23 Placement Agent Agreement [Incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 26,2013]
- 10.24 Form of Amendment to the Warrant To Purchase Common Stock. [Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 12, 2013]
- 10.25 Bond Underwriting Agreement by and between Zhejiang Kandi Vehicles Co., Ltd.and Ever- Bright Securities, dated December 26, 2013.[Incorporated by reference from Exhibit 10.25 to the Company s Annual Report on Form 10-K filed on March 17, 2014]
- 10.26 Zhejiang Wanxiang Ener1 Power System Co., Ltd. Sales Contract, bewteen Jinhua Kandi New Energy Vehicles Co., Ltd. and Zhejiang Wanxiang Ener1 Power System Co., Ltd., dated October 23, 2013.[Incorporated by reference from Exhibit 10.26 to the Company s Annual Report on Form 10-K filed on March 17, 2014]
- 16.1 Letter from Gately & Associates, LLC. [Incorporated by reference from Exhibit 16.1 to the Company's Current Report on Form 8-K filed on August 14, 2007]
- 23.1 Consent of Albert Wong & Co., Independent Registered Public Accounting Firm.
- 31.1 Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d- 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d- 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer and Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS* XBRL Instance Document.
101.SCH*XBRL Taxonomy Extension Schema Document.
101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB* XBRL Taxonomy Extension Label Linkbase Document.
101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.

Exhibits filed herewith.

* The XBRL-related information in Exhibits 101 to this report shall not be 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 is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.