Kandi Technologies Corp
Form 10-Q
August 14, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from ______to______

Commission file number: 001-33997

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

Delaware (State or other jurisdiction of incorporation or organization)	87-0700927 (I.R.S. Employer Identification No.)

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

____

(86 - 0579) 83906856
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company þ

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

Yes ¨ No þ

As of June 30, 2009 the registrant had issued and outstanding 19,961,000 shares of common stock, par value $.001 per share.

TABLE OF CONTENTS

PART I— FINANCIAL INFORMATION

Item 1. Financial Statements. (Unaudited)

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2009 (Unaudited)	December 31, 2008
CURRENT ASSETS		
Cash and cash equivalents	$ 84,056	$ 141,380
Restricted cash	9,350,164	12,550,685
Accounts receivable, net of allowance for doubtful accounts of $0 as of June 30, 2009 and $7,123 as of December 31, 2008	6,629,949	7,715,081
Inventories, net of reserve for slow moving inventories of $152,109 and $0 as of June 30, 2009 and December 31, 2008	10,115,102	3,207,571
Notes receivable	3,075,862	13,235,961
Other receivables	1,517,125	289,315
Prepayments and prepaid expenses	30,050	60,017
Due from employees	48,304	19,805
Advances to suppliers	1,993,603	-
Total Current Assets	32,844,215	37,219,815
LONG-TERM ASSETS		
Plant and equipment, net	19,386,292	20,832,549
Land use rights, net	9,255,992	9,368,403
Construction in progress	3,969,226	1,913,456
Deferred tax asset	122,368	265,243
Total Long-Term Assets	32,733,878	32,379,651
TOTAL ASSETS	$ 65,578,093	$ 69,599,466

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2009 (Unaudited)	December 31, 2008
CURRENT LIABILITIES		
Accounts payable	$ 8,859,440	$ 9,371,105
Other payables and accrued expenses	2,260,779	1,151,245
Short-term bank loans	24,836,372	26,115,375
Customer deposits	22,536	676,548
Notes payable	10,080,645	13,081,026
Due to employees	30,488	10,502
Due to related party	823,125	623,767
Deferred tax liability	37,124	139,500
Total Current Liabilities	46,950,509	51,169,068
TOTAL LIABILITIES	46,950,509	51,169,068
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value; 100,000,000 shares authorized; 19,961,000 and 19,961,000 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	19,961	19,961
Additional paid-in capital	7,663,397	7,138,105
Retained earnings (the restricted portion is $534,040 at June 30, 2009 and December 31, 2008)	9,690,673	10,047,198
Accumulated other comprehensive income	1,253,553	1,225,134
TOTAL STOCKHOLDERS' EQUITY	18,627,584	18,430,398
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 65,578,093	$ 69,599,466

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
REVENUES, NET	$ 5,481,551	$ 12,424,373	$ 9,487,455	$ 21,753,075
COST OF GOODS SOLD	(4,037,629)	(9,139,131)	(7,063,351)	(16,316,178)
GROSS PROFIT	1,443,922	3,285,242	2,424,104	5,436,897
Research and development	580,772	224,146	1,106,973	264,816
Selling and distribution expenses	97,810	180,596	183,994	409,102
General and administrative expenses	363,103	432,238	930,918	704,682
Stock based compensation expense	315,175	-	525,292	-
INCOME (LOSS) FROM OPERATIONS	87,062	2,448,262	(323,073)	4,058,297
Interest expense, net	(109,253)	(395,087)	(418,557)	(1,009,699)
Government grants	24,951	17,274	124,005	40,574
Other income, net	245,971	(1,948)	302,185	20,047
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	248,731	2,068,501	(315,440)	3,109,219
INCOME TAX (EXPENSE) BENEFIT	(22,358)	33,920	(41,085)	73,660
INCOME (LOSS) FROM CONTINUING OPERATIONS	226,373	2,102,421	(356,525)	3,182,879
DISCONTINUED OPERATION				
Loss from discontinued operation	-	(34,219)	-	(33,379)
Gain from disposition of discontinued operation	-	368,249	-	360,913
NET GAIN FROM DISCONTINUED OPERATION	-	334,030	-	327,534
NET INCOME (LOSS)	226,373	2,436,451	(356,525)	3,510,413

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
OTHER COMPREHENSIVE INCOME				
Foreign currency translation	16,121	93,622	28,419	350,834
COMPREHENSIVE (LOSS) INCOME	242,494	2,530,073	(328,106)	3,861,247
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	19,961,000	19,961,000	19,961,000	19,961,000
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	21,126,517	19,961,000	19,961,000	19,961,000
NET INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS, BASIC	$ 0.01	$ 0.11	$ (0.02)	$ 0.16
NET INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS, DILUTED	$ 0.01	$ 0.11	$ (0.02)	$ 0.16
NET INCOME PER SHARE FROM DISCONTINUED OPERATIONS, BASIC AND DILUTED	$ -	$ 0.01	$ -	$ 0.01
NET INCOME (LOSS) PER SHARE, BASIC	$ 0.01	$ 0.12	$ (0.02)	$ 0.18
NET INCOME (LOSS) PER SHARE, DILUTED	$ 0.01	$ 0.12	$ (0.02)	$ 0.18

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended June 30	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (356,525)	$ 3,510,413
Net (gain) from discontinued operation	-	(327,534)
(Loss) income from continuing operations	(356,525)	3,182,879
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,630,498	749,994
Deferred taxes	41,085	(75,980)
Stock based compensation expense	525,292	-
Inventory reserve	152,109	-
Changes in operating assets and liabilities:		
(Increase) Decrease In:		
Accounts receivable	1,085,132	(3,100,029)
Inventories	(6,907,531)	(2,132,390)
Other receivables	(1,227,810)	285,175
Due from employees	(28,499)	46,708
Prepayments and prepaid expenses	(1,963,636)	(51,145)
Increase (Decrease) In:		
Accounts payable	(511,665)	5,064,815
Other payables and accrued liabilities	1,109,534	224,483
Customer deposits	(654,013)	306,612
Net cash (used in) provided by operating activities from continuing operations	(7,106,029)	4,501,122
Net cash provided by operating activities from discontinued operation	-	738,472
Net cash (used in) provided by operating activities	$ (7,106,029)	$ 5,239,594
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of plant and equipment	(23,718)	(1,887,802)
Purchase of construction in progress	(2,110,952)	(545,134)
Purchase of a subsidiary, net of cash acquired	-	(44,129)
Issuance of notes receivable	(18,490,767)	(6,477,313)
Repayments of notes receivable	28,545,269	19,057

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended June 30	
	2009	2008
Net cash provided by (used in) investing activities from continuing operations	7,919,832	(8,935,321)
Net cash provided by investing activities from discontinued operation	-	-
Net cash provided by (used in) investing activities	$ 7,919,832	$ (8,935,321)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease (Increase) in restricted cash	3,200,521	(5,181,280)
Proceeds from short-term bank loans	17,829,741	20,197,548
Repayments of short-term bank loans	(19,145,049)	(13,927,505)
Proceeds from notes payable	10,084,034	3,442,053
Repayments of notes payable	(13,102,078)	(1,455,223)
Repayments of advances to related parties	199,358	164,249
Net cash provided by (used in) financing activities from continuing operations	(933,473)	3,239,842
Net cash (used in) financing activities from discontinued operation	-	-
Net cash provided by (used in) financing activities	(933,473)	3,239,842
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(119,670)	(455,885)
Effect of exchange rate changes on cash	62,346	(536,359)
Cash and cash equivalents at beginning of period	141,380	1,149,140
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 84,056	$ 156,896
SUPPLEMENTARY CASH FLOW INFORMATION		
Income taxes paid	$ -	$ -
Interest paid	$ 808,100	$ 937,362

SUPPLEMENTAL NON-CASH DISCLOSURE:

During the six months ended June 30, 2009 and 2008, $57,120 and $613,097 were transferred from construction in progress to plant and equipment, respectively.

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

On June 24, 2008 the Company closed its acquisition of 100% of the shares of Kandi Special Vehicles Co., Ltd ("KSV"), after which KSV became a wholly-owned subsidiary of the Company. The acquisition was accounted for as a purchase in accordance with Statements of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations." The consolidated statements of income include the results of operations of KSV at the date of acquisition. On March 10, 2009, KSV changed its name to Kandi New Energy Vehicles Co., Ltd, ("KNE"). On June 11, 2009, KNE changed its name back to KSV.

On May 9, 2008, the Company sold Zhejiang Yongkang Top Import & Export Co., Ltd. ("Dingji"), a subsidiary of the Company, to certain individuals. In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long–Lived Assets," the results of operations of Dingji as of the disposal date May 9, 2008 are removed from the detailed financial statement line items to the "discontinued operation" of the Company's financial statements.

The primary operations of the Company are the design, development, manufacturing, and commercializing of all-terrain vehicles, go-karts, and specialized automobiles and automobile-related products for the PRC and global export markets. Sales are made to dealers in Asia, North America, Europe and Australia.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 2 – LIQUIDITY

The Company's working capital deficit is $14,106,294 as of June 30, 2009.

As of June 30, 2009, the Company has credit lines from commercial banks for $30,680,224, of which $24,836,372 was used at June 30, 2009.

The Company believes that its cash flows generated internally may not be sufficient to sustain operations and repay short term bank loans for the next twelve months. Therefore, from time to time, the Company may require additional funding through short term borrowing from PRC banks or other financing activities if needed in the near future. Nevertheless, the Company believes that financing will be available on normal trade terms if needed.

NOTE 3 - BASIS OF PRESENTATION

The Company's unaudited condensed consolidated financial statements for the six months ended June 30, 2009 and 2008 have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the requirements for reporting on Rule 8-03 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. The condensed consolidated balance sheet information as of December 31, 2008 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with that report.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 4 – PRINCIPLES OF CONSOLIDATION

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

(i) Continental Development Ltd., (“Continental”) (a wholly-owned subsidiary of the Company)
(ii) Zhejiang Kandi Vehicles Co. Ltd., (“Kandi”) (a wholly-owned subsidiary of “Continental”)
(iii) Kandi Special Vehicles Co., Ltd, (“KSV”, formerly known as Kandi New Energy Vehicles Co. Ltd. “KNE”) (a wholly-owned subsidiary of the 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.

NOTE 6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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.

(b) Research and Development

Expenditures relating to the development of new products and processes, including significant improvement to existing products are expensed as incurred. Research and development expenses were $1,106,973 and $264,816 for the six months ended June 30, 2009 and 2008, respectively.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign Currency Translation

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of the Company is the Renminbi (RMB). Capital accounts of the consolidated financial statements are translated into United States dollars from RMB at their historical exchange rates when the capital transactions occurred.

	June 30, 2009	December 31, 2008	June 30, 2008
Period end RMB : USD exchange rate	6.8448	6.8542	6.8718
Average quarterly RMB : USD exchange rate	6.8425	7.0842	7.0930

(d) 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.

(e) Income Taxes

The Company accounts for income tax using an asset and liability approach and allows for recognition of deferred tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future realization is uncertain.

(f) 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 June 30, 2009 and December 31, 2008 represent time deposits on account to secure short-term bank loans and notes payable. Also see Notes 14 and 15.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Fair Value of Financial Instruments

SFAS 157 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 SFAS 157 as of June 30, 2009 are as follows:

	Fair Value Measurements at Reporting Date Using Quoted Prices in			
	Carrying value as of June 30, 2009	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 84,056	$ 84,056	-	-
Restricted cash	$ 9,350,164	$ 9,350,164	-	-

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 to secure short-term bank loans and notes payable. The original cost of these assets approximates fair value due to their short term maturity.

(h) Stock Based Compensation

The Company stock based compensation is recorded in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 123R.

The fair value of stock options is estimated using the Black-Scholes 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 compensation expense recognized is based on awards expected to vest, and there were no estimated forfeitures as the current options outstanding were only issued to founders, directors and senior management of the Company.

SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The stock based compensation expense for the six months ended June 30, 2009 is $525,292. Also see Note 17.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations. SFAS No. 141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No.141 (R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. SFAS 141(R) will significantly affect the accounting for future business combinations and we will determine the accounting as new combinations are determined.

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

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"), which amends SFAS No.133 and expands disclosures to include information about the fair value of derivatives, related credit risks and a company's strategies and objectives for using derivatives. SFAS No. 161 is effective for fiscal periods beginning on or after November 15, 2008. The Company has determined that SFAS No. 161 does not materially affect, or is reasonably likely to materially affect its financial statements.

During June 2008, the FASB issued Emerging Issues Task Force ("EITF") Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock ("EITF 07-05"), which is effective for fiscal years beginning after December 15, 2008. EITF 07-05 addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which is the first part of the scope exception in paragraph 11(a) of FASB SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). If an instrument (or an embedded feature) that has the characteristics of a derivative instrument under paragraphs 6–9 of SFAS 133 is indexed to an entity's own stock, it is still necessary to evaluate whether it is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). Other applicable authoritative accounting literature, including Issues EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, and EITF 05-2, The Meaning of "Conventional Debt Instrument" in Issue No. 00-19, provides guidance for determining whether an instrument (or an embedded feature) is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). EITF 07-05 does not address that second part of the scope exception in paragraph 11(a) of SFAS 133. The Company has determined that EITF 07-05 does not materially affect, or is reasonably likely to materially affect its financial statements.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 8 – CONCENTRATIONS

(a) Customers

The Company's major customers for the period ended June 30, 2009 accounted for the following percentages of total sales and accounts receivable as follows:

	Sales		Accounts Receivable	
Major Customers	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	June 30, 2009	December 31, 2008
Company A(dingji)	80%	65%	89%	78%
Company B (jing li ma)	17%	3%	10%	13%
Company C (zongcheng)	3%	-	-	-
Company D (kandi guoji)	-	20%	-	-
Company E (shuguang)	-	6%	-	2%

(b) Suppliers

The Company's major suppliers for the six months ended June 30, 2009 accounted for the following percentage of total purchases and accounts payable as follows:

	Purchases		Accounts Payable	
Major Suppliers	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	June 30, 2009	December 31, 2008
Company F(zmec)	66%	52%	25%	21%
Company G(sz dadihe)	2%	-	-	-
Company H (jinlong)	1%	-	1%	3%
Company I	1%	-	1%	2%
Company J (zhuhai yingbo)	1%	-	-	-

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 9 – INCOME (LOSS) PER SHARE

Basic income (loss) per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted income per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the stock options were exercised and if the additional common shares were dilutive. For the six months ended June 30, 2009, the Company has a net loss, and therefore the options are anti-dilutive. As a result, there were no potentially dilutive securities for the six months ended June 30, 2009 and 2008.

For the three months ended June 30, 2009, Company's net income is $226,373, and for this period, the Company's average stock price is $1.45, if all of the options were exercised, the number of shares of common stock outstanding would increase to 21,126,517. Also see Note 17.

NOTE 10 - INVENTORIES

Inventories are summarized as follows:

	June 30, 2009 (Unaudited)	December 31, 2008
Raw material	$ 2,423,611	$ 988,426
Work-in-progress	6,897,292	1,980,413
Finished goods	946,308	238,732
	10,267,211	3,207,571
Less: reserve for slowing moving inventories	(152,109)	-
Inventories, net	10,115,102	3,207,571

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 11 - NOTES RECEIVABLE

Notes receivable are summarized as follows:

	June 30, 2009 (Unaudited)	December 31, 2008
Notes receivable from unrelated companies:		
Due March 31, 2009, interest at 7.2% per annum	$ -	$ 3,928,997
Due April 29, 2009, interest at 7.2% per annum	-	729,480
Due June 30, 2009, interest at 5.31% per annum (subsequently settled on July 9, 2009)	810,781	8,147,091
Due February 24, 2010, interest at 5.0% per annum	1,145,301	-
Due February 24, 2010, interest at 5.0% per annum	389,298	-
Due April 29, 2010, interest at 5.31% per annum	730,482	-
Notes receivable from unrelated companies	3,075,862	12,805,568
Bank acceptance notes:		
Due January 5, 2009	-	430,393
Bank acceptance notes	-	430,393
Notes receivable	$ 3,075,862	$ 13,235,961

Notes receivable are unsecured.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 12 – LAND USE RIGHTS

Land use rights consist of the following:

	June 30, 2009 (Unaudited)	December 31, 2008
Cost of land use rights	$ 9,575,316	$ 9,575,316
Less: Accumulated amortization	(319,324)	(206,913)
Land use rights, net	$ 9,255,992	$ 9,368,403

On June 24, 2008, the Company acquired a land use right, which expires on December 31, 2053, with a net book value of $9,114,373 in the acquisition of KSV.

As of June 30, 2009 and December 31, 2008, the net book value of land use rights pledged as collateral for bank loans was $3,275,727 and $374,454 respectively. Also see Note 14.

As of June 30, 2009 and December 31, 2008, the net book value of land use rights pledged as collateral for bank loans borrowed by Zhejiang Mengdeli Electronic Co., Ltd. ("ZMEC"), an unrelated party of the Company was $5,980,265 and $6,463,282. Also see Notes 14 and 18.

The amortization expense for the six months ended June, 2009 and 2008 was $112,411 and $22,718, respectively.

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

2009 (six months)	$ 112,412
2010	224,823
2011	224,823
2012	224,823
2013	224,823
Thereafter	8,244,288
Total	$ 9,255,992

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 13 – PLANT AND EQUIPMENT

Plant and equipment consist of the following:

	June 30, 2009 (Unaudited)	December 31, 2008
At cost:		
Buildings	$ 8,151,151	$ 8,139,972
Machinery and equipment	9,241,891	9,150,387
Office equipment	109,595	107,574
Motor vehicles	166,431	166,203
Moulds	9,603,689	9,590,519
	27,272,757	27,154,655
Less : Accumulated depreciation		
Buildings	$ (792,412)	$ (664,872)
Machinery and equipment	(5,133,117)	(4,677,133)
Office equipment	(90,891)	(85,826)
Motor vehicles	(81,315)	(67,049)
Moulds	(1,788,730)	(827,226)
	(7,886,465)	(6,322,106)
Plant and equipment, net	$ 19,386,292	$ 20,832,549

As of June 30, 2009 and December 31, 2008, the net book value of plant and equipment pledged as collateral for bank loans was $4,284,611 and $1,404,236, respectively. Also see Note 14. Depreciation expense for six months ended June 30, 2009 and 2008 was $1,518,087 and $727,276 respectively.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 14 – SHORT TERM BANK LOANS

Short-term loans are summarized as follows:

	June 30, 2009 (Unaudited)	December 31, 2008
Loans from ICBC-Exploration Zone Branch		
Monthly interest only payments at 6.21% per annum, due March 18, 2009. Collateralized by a time deposit. (repaid on its due date)	$ -	$ 656,532
Monthly interest only payments at 6.21% per annum, due March 23, 2009. Collateralized by a time deposit. (repaid on its due date)	-	656,532
Monthly interest only payments at 7.84% per annum, due April 7, 2009, secured by the assets of the Company. (repaid on its due date)	-	729,480
Monthly interest only payments at 7.47% per annum, due June 4, 2009, secured by the assets of the Company. (repaid on its due date)	-	729,480
Monthly interest only payments at 7.47% per annum, due August 4, 2009, secured by the assets of the Company. Also see Notes 12 and 13. (repaid on its due date)	438,289	437,688
Monthly interest only payments at 7.47% per annum, due September 2, 2009, secured by the assets of the Company. Also see Notes 12 and 13.	394,460	393,919
Monthly interest only payments at 6.93% per annum, due October 8, 2009, secured by the assets of the Company. Also see Notes 12 and 13.	438,289	437,688
Monthly interest only payments at 6.93% per annum, due October 14, 2009, secured by the assets of the Company. Also see Notes 12 and 13.	555,166	554,405
Monthly interest only payments at 6.93% per annum, due October 22, 2009, secured by the assets of the Company. Also see Notes 12 and 13.	511,337	510,636
Monthly interest only payments at 5.58% per annum, due December 4, 2009, secured by the assets of the Company. Also see Notes 12 and 13.	584,385	583,584
Monthly interest only payments at 5.84% per annum, due April 6, 2010, secured by the assets of the Company. Also see Notes 12 and 13.	730,482	-

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 14 - SHORT TERM BANK LOANS (CONTINUED)

	June 30, 2009 (Unaudited)	December 31, 2008
Monthly interest only payments at 5.31% per annum, due April 15, 2010. Collateralized by a time deposit.	1,314,866	-
Monthly interest only payments at 5.31% per annum, due June 3, 2010, secured by the assets of the Company. Also see Notes 12 and 13.	730,482	-
Loans from Commercial Bank-Jiangnan Branch		
Monthly interest only payments at 8.22% per annum, due January 10, 2009, guaranteed by Yongkang Tangxian Colour Metal Die-casting Company and pledged by Jingdezhen De'er Industrial Investment Co., Ltd. (repaid on its due date)	-	2,917,919
Monthly interest only payments at 8.22% per annum, due May 9, 2009, secured by the assets of the Company. Also see Notes 12 and 13. (repaid on its due date)	-	1,458,959
Monthly interest only payments at 5.84% per annum, due January 5, 2010, guaranteed by Yongkang Kangli Metal Manufacturing Co. and pledged by Jingdezhen De'er industrial investment Co., Ltd.	2,921,926	-
Monthly interest only payments at 8.22% per annum, due May 5, 2010, secured by the assets of the Company. Also see Notes 12 and 13.	1,460,963	-
Loans from Huaxia Bank		
Monthly interest only payments at 6.13% per annum, due September 12, 2009, pledged by construction in progress of the Company, Jiangxi De'er Industrial Investment Co., Ltd., guaranteed by Zhejiang Kangli Metal Manufacturing Company and Kandi Investment Group Co.	2,483,637	2,480,231
Loans from China Everbright Bank		
Monthly interest only payments at 7.23% per annum, due February 5, 2009, pledged office building of Mr. Hu Xiaoming and Ms. Ling Yueping, guaranteed by Nanlong Group Co., Ltd. and Mr. Hu (subsequently repaid on its due date).	-	4,376,878
Monthly interest only payments at 5.58% per annum, due February 22, 2010, pledged office building of Mr. Hu Xiaoming and Ms. Ling Yueping, guaranteed by Nanlong Group Co., Ltd., and Zhejiang Mengdeli Electric Co., Ltd.	4,382,889	-

20

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009 (UNAUDITED)

NOTE 14 - SHORT TERM BANK LOANS (CONTINUED)

	June 30, 2009 (Unaudited)	December 31, 2008
Loans from Shanghai Pudong Development Bank		
Monthly interest only payments at 6.72% per annum, due April 8, 2009. Collateralized by a time deposit. (repaid on its due date)	-	1,313,064
Monthly interest only payments at 6.72% per annum, due April 9, 2009. Collateralized by a time deposit. (repaid on its due date)	-	1,313,064
Monthly interest only payments at 7.28% per annum, due May 21, 2009, guaranteed by Nanlong Group Co., Ltd. and Mr. Hu Xiaoming. (repaid on its due date)	-	2,917,918
Monthly interest only payments at 4.78% per annum, due April 28, 2010. Collateralized by a time deposit.	1,314,867	-
Monthly interest only payments at 5.10% per annum, due November 27, 2010, guaranteed by Nanlong Group Co., Ltd. and Mr. Hu Xiaoming.	2,921,926	-
Loans from Evergrowing Bank		