

Kandi Technologies Group, Inc.  
Form 10-Q  
May 10, 2016

---

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

**FORM 10-Q**

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

For the quarterly period ended **March 31, 2016**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **001-33997**

**KANDI TECHNOLOGIES GROUP, INC.**

(Exact name of registrant as specified in charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**90-0363723**

(I.R.S. Employer Identification No.)

**Jinhua City Industrial Zone**  
**Jinhua, Zhejiang Province**  
**People's Republic of China**  
**Post Code 321016**

(Address of principal executive offices)

**(86 - 579) 82239856**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)

Yes  No

---

Edgar Filing: Kandi Technologies Group, Inc. - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

As of May 3, 2016, the registrant had issued and outstanding 47,689,638 shares of common stock, par value \$0.001 per share.

---

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I-- FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	2
Condensed Consolidated Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015	2
Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (unaudited) Three Months Ended March 31, 2016 and 2015	3
Condensed Consolidated Statements of Cash Flows (unaudited) Three Months Ended March 31, 2016 and 2015	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3. Quantitative and Qualitative Disclosures about Market Risk	53
Item 4. Controls and Procedures	53
<b>PART II-- OTHER INFORMATION</b>	<b>54</b>
Item 1A. Risk Factors	54
Item 6. Exhibits	55

**PART I-- FINANCIAL INFORMATION****Item 1. Financial Statements. (Unaudited)**

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

	March 31, 2016	December 31, 2015
<b>Current assets</b>		
Cash and cash equivalents	\$ 13,447,666	\$ 16,738,559
Restricted cash	16,277,051	16,172,009
Short term investment	3,100,391	1,613,727
Accounts receivable	40,867,698	8,136,421
Inventories (net of provision for slow moving inventory of 489,057 and 485,901 as of March 31, 2016 and December 31, 2015, respectively)	25,814,430	17,773,679
Notes receivable	11,276,387	13,033,315
Other receivables	487,077	332,922
Prepayments and prepaid expense	353,628	181,534
Due from employees	105,868	34,434
Advances to suppliers	348,761	71,794
Amount due from JV Company, net	92,789,649	76,172,471
Amount due from related party	5,585,613	40,606,162
Deferred taxes assets	744,910	-
<b>TOTAL CURRENT ASSETS</b>	<b>211,199,129</b>	<b>190,867,027</b>
<b>LONG-TERM ASSETS</b>		
Plant and equipment, net	19,539,908	20,525,126
Land use rights, net	12,934,208	12,935,121
Construction in progress	54,750,430	54,368,753
Long Term Investment	1,472,686	1,463,182
Investment in JV Company	86,034,442	90,337,899
Goodwill	322,591	322,591
Intangible assets	474,782	495,306
Other long term assets	155,020	154,019
<b>TOTAL Long-Term Assets</b>	<b>175,684,067</b>	<b>180,601,997</b>
<b>TOTAL ASSETS</b>	<b>\$ 386,883,196</b>	<b>\$ 371,469,024</b>
<b>CURRENT LIABILITIES</b>		
Accounts payables	\$ 91,647,247	\$ 73,957,969
Other payables and accrued expenses	1,678,011	9,544,909
Short-term loans	36,894,649	36,656,553
Customer deposits	149,688	94,026

Edgar Filing: Kandi Technologies Group, Inc. - Form 10-Q

Notes payable	5,968,252	3,850,478
Income tax payable	1,822,276	624,276
Due to employees	11,944	9,423
Deferred taxes liabilities	-	2,374,924
Financial derivate - liability	537,250	3,823,590
Deferred income	-	13,726
<b>Total Current Liabilities</b>	<b>138,709,317</b>	<b>130,949,874</b>
<b>LONG-TERM LIABILITIES</b>		
Deferred taxes liabilities	312,693	1,593,582
Financial derivate - liability	-	-
<b>Total Long-Term Liabilities</b>	<b>312,693</b>	<b>1,593,582</b>
<b>TOTAL LIABILITIES</b>	<b>139,022,010</b>	<b>132,543,456</b>
<b>STOCKHOLDER'S EQUITY</b>		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 47,019,638 and 46,964,855 shares issued and outstanding at March 31,2016 and December 31,2015, respectively	47,020	46,965
Additional paid-in capital	219,886,837	212,564,334
Retained earnings (the restricted portion is \$4,172,324 and \$4,172,324 at March 31,2016 and December 31,2015, respectively)	31,144,340	31,055,919
Accumulated other comprehensive loss	(3,217,011)	(4,741,650)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>247,861,186</b>	<b>238,925,568</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 386,883,196</b>	<b>\$ 371,469,024</b>

See accompanying notes to condensed consolidated financial statements

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

	<b>Three Months Ended</b>	
	March 31, 2016	March 31, 2015
<b>REVENUES, NET</b>	<b>\$ 50,657,893</b>	<b>\$ 43,781,086</b>
<b>COST OF GOODS SOLD</b>	43,939,795	37,410,353
<b>GROSS PROFIT</b>	<b>6,718,098</b>	<b>6,370,733</b>
<b>OPERATING EXPENSES:</b>		
Research and development	205,968	571,020
Selling and marketing	46,335	113,895
General and administrative	8,032,882	3,780,648
<b>Total Operating Expenses</b>	<b>8,285,185</b>	<b>4,465,563</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(1,567,087)</b>	<b>1,905,170</b>
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	780,181	590,480
Interest expense	(442,079)	(598,591)
Change in fair value of financial instruments	3,286,340	4,750,300
Government grants	194,473	-
Share of profit after tax of JV	(4,822,470)	469,356
Other income, net	22,387	23,847
<b>Total other income (loss), net</b>	<b>(981,168)</b>	<b>5,235,392</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>(2,548,255)</b>	<b>7,140,562</b>
<b>INCOME TAX BENEFIT (EXPENSE)</b>	<b>2,636,675</b>	<b>(1,008,909)</b>
<b>NET INCOME</b>	<b>88,420</b>	<b>6,131,653</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Foreign currency translation	1,524,639	493,211
<b>COMPREHENSIVE INCOME</b>	<b>\$ 1,613,059</b>	<b>\$ 6,624,864</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING BASIC</b>	<b>47,009,834</b>	<b>46,281,299</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED</b>	<b>47,027,744</b>	<b>46,397,993</b>
<b>NET INCOME PER SHARE, BASIC</b>	<b>\$ 0.00</b>	<b>\$ 0.13</b>
<b>NET INCOME PER SHARE, DILUTED</b>	<b>\$ 0.00</b>	<b>\$ 0.13</b>

Edgar Filing: Kandi Technologies Group, Inc. - Form 10-Q  
See accompanying notes to condensed consolidated financial statements

3

---

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

	<b>Three Months Ended</b>	
	March 31, 2016	March 31, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 88,420	\$ 6,131,653
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,223,243	1,479,384
Deferred taxes	(4,397,828)	-
Change in fair value of financial instruments	(3,286,340)	(4,750,300)
Share of profit after tax of JV Company	4,822,470	(469,356)
Stock Compensation cost	6,887,892	2,049,683
<b>Changes in operating assets and liabilities, net of effects of acquisition:</b>		
<b>(Increase) Decrease In:</b>		
Accounts receivable	(32,225,627)	(12,844,602)
Inventories	(7,815,491)	(11,246,265)
Other receivables	(144,118)	(65,602)
Due from employee	(67,798)	(10,225)
Prepayments and prepaid expenses	(441,602)	(527,687)
Amount due from JV Company	(15,899,018)	(19,570,708)
<b>Increase (Decrease) In:</b>		
Accounts payable	16,975,799	31,915,168
Other payables and accrued liabilities	(7,875,311)	(1,438,571)
Customer deposits	54,289	1,365
Income Tax payable	1,165,635	(130,488)
Due from related party	34,781,767	-
<b>Net cash used in operating activities</b>	<b>\$ (6,153,618)</b>	<b>\$ (9,476,551)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of plant and equipment, net	(29,696)	(233,343)
Disposal of land use rights and other intangible assets	13,767	-
Purchases of construction in progress	(28,140)	(39,266)
Issuance of notes receivable	(614,592)	(4,225,884)
Repayment of notes receivable	2,430,657	2,584,147
Short Term Investment	(1,455,727)	-
<b>Net cash provided by (used in) investing activities</b>	<b>\$ 316,269</b>	<b>\$ (1,914,346)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Restricted cash	-	(12,366,201)
Proceeds from short-term bank loans	-	6,338,475
Proceeds from notes payable	2,063,766	6,663,525
Warrant exercise	434,666	-
<b>Net cash provided by financing activities</b>	<b>\$ 2,498,432</b>	<b>\$ 635,799</b>



<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(3,338,917)	(10,755,098)
Effect of exchange rate changes on cash	48,024	11,296
Cash and cash equivalents at beginning of year	16,738,559	26,379,460
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>13,447,666</b>	<b>15,635,658</b>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Income taxes paid	595,518	1,139,397
Interest paid	445,176	577,874

See accompanying notes to condensed consolidated financial statements

**NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES**

Kandi Technologies Group, Inc. ( Kandi Technologies ) was incorporated under the laws of the State of Delaware on March 31, 2004. Kandi Technologies changed its name from Stone Mountain Resources, Inc. to Kandi Technologies, Corp. on August 13, 2007. On December 21, 2012, Kandi Technologies changed its name to Kandi Technologies Group, Inc. As used herein, the term the Company means Kandi Technologies and its operating subsidiaries, as described below.

Headquartered in the Jinhua city, Zhejiang Province, China, the Company is one of China's leading producers and manufacturers of electrical vehicle products, electrical vehicle parts and off road vehicles for sale in the People's Republic of China (the PRC ) and global markets. The Company conducts its primary business operations through its wholly-owned subsidiary, Zhejiang Kandi Vehicles Co., Ltd. ( Kandi Vehicles ), and the partial and wholly-owned subsidiaries of Kandi Vehicles.

The Company's organizational chart is as follows:

Operating Subsidiaries:

Pursuant to relevant agreements executed in January 2011, Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests (100% profits and loss absorption rate) of Jinhua Kandi New Energy Vehicles Co., Ltd. ( Kandi New Energy ), a company in which Kandi Vehicles has 50% interest. Mr. Hu Xiaoming owns the other 50% which he entrusted Kandi Vehicles to manage Kandi New Energy. Kandi New Energy currently holds battery packing production rights (license), and supplies the battery pack to the JV Company (Defined below). It didn't maintain the special-purpose vehicle production rights (license) on manufacturing Kandi brand electric utility vehicles. According to the JV Agreement (defined below) Kandi is not allowed to produce EVs. To avoid the maintenance fee on this license, the Company shall sell the special-purpose vehicle production rights (license) to others.

In April 2012, pursuant to a share exchange agreement, the Company acquired 100% of Yongkang Scrou Electric Co, Ltd. ( Yongkang Scrou ), a manufacturer of automobile and EV parts. Yongkang Scrou currently manufactures and sells EV drive motors, EV controllers, air conditioners and other electrical products to the JV Company (defined below).

In March 2013, pursuant to a joint venture agreement (the JV Agreement ) entered into by Kandi Vehicles and Shanghai Maple Guorun Automobile Co., Ltd. ( Shanghai Guorun ), a 99%-owned subsidiary of Geely Automobile Holdings Ltd. ( Geely ), the parties established Zhejiang Kandi Electric Vehicles Co., Ltd. (the JV Company ) to develop, manufacture and sell EV products and related auto parts. Each of Kandi Vehicles and Shanghai Guorun has 50% ownership interest in the JV Company. In March 2014, the JV Company changed its name to Kandi Electric Vehicles Group Co., Ltd. At present, the JV Company is a holding company with products that are manufactured by its subsidiaries.

In March 2013, Kandi Vehicles formed Kandi Electric Vehicles (Changxing) Co., Ltd. ( Kandi Changxing ) in the Changxing (National) Economic and Technological Development Zone. Kandi Changxing is engaged in the production of EV products. In the fourth quarter of 2013, Kandi Vehicles entered into an ownership transfer agreement with the JV Company pursuant to which Kandi Vehicles transferred 100% of its ownership in Kandi Changxing to the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest in Kandi Changxing.

In July 2013, Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. (the Service Company ) was formed. The Service Company is engaged in various pure EV leasing businesses, which is called Micro Public Transportation ( MPT ) program. The Company has 9.5% ownership interest in the Service Company through Kandi Vehicles.

In November 2013, Zhejiang Kandi Electric Vehicles Jinhua Co., Ltd. ( Kandi Jinhua ) was formed by the JV Company. The JV Company has 100% ownership interest in Kandi Jinhua, and the Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest in Kandi Jinhua.

In November 2013, Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. ( JiHeKang ) was formed by the JV Company and is engaged in car sales business. The JV Company has 100% ownership interest in JiHeKang, and the Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest in JiHeKang.

In December 2013, the JV Company entered into an ownership transfer agreement with Shanghai Guorun pursuant to which the JV Company acquired 100% ownership of Kandi Electric Vehicles (Shanghai) Co., Ltd. ( Kandi Shanghai ). As a result, Kandi Shanghai is a wholly-owned subsidiary of the JV Company, and the Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest in Kandi Shanghai.

In January 2014, Zhejiang Kandi Electric Vehicles Jiangsu Co., Ltd. ( Kandi Jiangsu ) was formed by the JV Company. The JV Company has 100% ownership interest in Kandi Jiangsu, and the Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest in Kandi Jiangsu. The company is mainly engaged in EV research and development, manufacturing and sales.

In November 2015, Hangzhou Puma Investment Management Co., Ltd. ( Puma Investment ) was formed by the JV Company, which focuses on the investment and consulting service. The JV Company has 50% ownership interest in Puma Investment, and the Company, indirectly through its JV Company, has 25% economic interest in Puma Investment. The other 50% ownership is held by the Service Company.

In November 2015, Hangzhou JiHeKang Electric Vehicle Service Co., Ltd. ( JiHeKang Service Company ) was formed by the JV Company, which focuses on the after-market service for the EV products sold. The JV Company has 100% ownership interest in JiHeKang Service Company, and the Company, indirectly through its JV Company, has 50% economic interest in JiHeKang Service Company.

In January 2016, Kandi Electric Vehicles (Hainan) Co., Ltd. ( Kandi Hainan ) was renamed from Kandi Electric Vehicles (Wanning) Co., Ltd. ( Kandi Wanning ) which was originally formed in Wanning City of Hainan Province by Kandi Vehicles and Kandi New Energy in April 2013 and then was transferred to Haikou City in January 2016. Kandi Vehicles has 90% ownership in Kandi Hainan, 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 losses) of Kandi Hainan.

The Company's primary business operations are the design, development, manufacturing and commercialization of EV products, EV parts and off road vehicles. As part of its strategic objective to become a leading manufacturer of EV products and related services, the Company has increased its focus on pure EV related products with a particular emphasis on expanding its market share in China.

## **NOTE 2 LIQUIDITY**

The Company had a working capital surplus of \$72,489,812 as of March 31, 2016, an increase of \$12,572,659 from \$59,917,153 as of December 31, 2015.

As of March 31, 2016, the Company had credit lines from commercial banks of \$36,894,649. The Company believes that its cash flows generated internally may not be sufficient to support the growth of future operations and to repay short-term bank loans for the next twelve (12) months. 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 its operations through short-term commercial bank loans from PRC banks. The term of these loans is typically for one year, and upon the payment of all outstanding principal and interest in a particular loan, the banks have typically rolled over the loan for an additional one-year term, with adjustments made to the interest rate to reflect prevailing market rates. The Company believes this practice has been ongoing year after year and that short-term bank loans remain available on normal trade terms if needed.

### **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 ( U.S. GAAP ) and have been consistently applied in the presentation of financial statements.

The financial information included herein for the three-month ended March 31, 2016 are unaudited; however, such information reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the Company s condensed consolidated financial statements for these interim periods.

The results of operations for the three-month ended March 31, 2016 are not necessarily indicative of the results expected for the entire fiscal year ending December 31, 2016.

### **NOTE 4 PRINCIPLES OF CONSOLIDATION**

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

- (i) Continental, a wholly-owned subsidiary of the Company;
- (ii) Kandi Vehicles, a wholly-owned subsidiary of Continental;
- (iii) Kandi New Energy, a 50% owned subsidiary of Kandi Vehicles. Pursuant to relevant agreements executed in January 2011, Kandi Vehicles effectively controls a variable interest ( VIE ) of Kandi New Energy. PRC laws and regulations prohibit or restrict foreign 100% ownership of an entity who has the special purpose vehicle production license (maximum is 50%), to comply with these foreign ownership restrictions, the Company has entered various agreement with Mr. Hu Xiaoming to hold 50% equity share of Kandi New Energy on behalf. Based on the relevant agreements, Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests of Kandi New Energy; Based on these contractual arrangements, the Company consolidates the financial results of Kandi New Energy required by Accounting Standards Codification ( ASC ) subtopic 810-10 ( ASC 810-10 ), Consolidation: Overall (Pre-Codification): Financial Accounting Standards Board ( FASB ) Interpretation No. 46R, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. Based on the aforementioned agreements, the Company demonstrates its ability and intention to continue to exercise the ability to obtain substantially all of the profits and absorb all of the expected losses of Kandi New Energy. All significant intercompany accounts and transactions between the Company, its subsidiaries, and Kandi New energy have been eliminated in consolidation.
- (iv) Yongkang Scrou, a wholly-owned subsidiary of Kandi Vehicles;
- (v) Kandi Hainan, a subsidiary, 10% owned by Kandi New Energy and 90% owned by Kandi Vehicles.

### Equity Method Investees

The consolidated net income also includes the Company's proportionate share of the net income or loss of its equity method investees as following:

- (vi) The JV Company, 50% owned subsidiary of Kandi Vehicles;
- (vii) Kandi Changxing, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest;
- (viii) Kandi Jinhua, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest;
- (ix) JiHeKang, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest;
- (x) Kandi Shanghai, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest;
- (xi) Kandi Jiangsu, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest;
- (xii) Puma Investment, a 50%-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has 25% economic interest.
- (xiii) JiHeKang Service Company, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has 50% economic interest.

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

### NOTE 5 USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Management makes these estimates using the best information available at the time the estimates are made; however actual results when ultimately realized could differ from those estimates.

## NOTE 6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Economic and Political Risks

The Company's operations are conducted in the PRC. As a result, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC economy. In addition, the Company's earnings are subject to movements in foreign currency exchange rates when transactions are denominated in Renminbi ( RMB ), which is the Company's functional currency. Accordingly, the Company's operating results are affected by changes in the exchange rate between the U.S. dollar and the RMB.

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's performance may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

### (b) Fair Value of Financial Instruments

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

These tiers include:

Level 1 defined as observable inputs such as quoted prices in active markets;

Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3 defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The company's financial instruments primarily consist of cash and cash equivalents, restricted cash, accounts receivable, notes receivable, other receivable, accounts payable, other payables and accrued liabilities, short-term bank loans, notes payable, and warrants.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, notes receivable, other receivable, accounts payable, other payables and accrued liabilities and notes payable approximate fair value because of the short term nature of these items. The estimated fair values of short-term bank loans were not materially different from their carrying value as presented due to the short maturities and that the interest rates on the borrowing approximate those that would have been available for loans of similar remaining maturity and risk profile. As the carrying amounts are reasonable estimates of the fair value, these financial instruments are classified within Level 1 of the fair value hierarchy. The Company identified notes payable as a Level 2 instrument due to the fact that the inputs to the valuation are primarily based upon readily observable pricing information. The balance of notes payable, which was measured and disclosed at fair value, was \$5,968,252 and \$3,850,478 at March 31, 2016 and 2015, respectively.



Warrants, which are accounted as liabilities, are treated as derivative instruments, and are measured at each reporting date for their fair value using Level 3 inputs. The fair value of warrants was \$537,250 and \$3,823,590 at March 31, 2016 and 2015, respectively. Also see Note 6(t).

**(c) Cash and Cash Equivalents**

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

Restricted cash, as of March 31, 2016 and December 31, 2015, represented time deposits on account for earning interest income. As of March 31, 2016, the Company's restricted cash were \$16,277,051, which reflects a one-year Certificate of Time Deposit (CD) with Hangzhou Bank Jinhua Branch.

**(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 selling expenses and any further costs expected to be incurred for completion. Adjustments to reduce the cost of inventory to its net realizable value are made, if required, for estimated excess, obsolescence, or impaired balances.

**(e) Accounts Receivable**

Accounts receivable are recognized and carried at net realizable value. An allowance for doubtful accounts is recorded in periods in which the Company determines a loss is probable, based on its assessment of specific factors, such as troubled collections, historical experience, accounts aging, ongoing business relations and other factors. Accounts are written off after an exhaustive collection effort. If accounts receivable are to be provided for, or written off, they are recognized in the consolidated statement of operations within the operating expenses line item. As of March 31, 2016 and December 31, 2015, the Company had no allowance for doubtful accounts, as per the management's judgment based on their best knowledge.

As of March 31, 2016 and December 31, 2015, the credit terms with the Company's customers were typically 150 to 180 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 an accrual basis. If notes receivable are paid back or written off, that transaction will be recognized in the relevant year. If the loan default is probable, reasonably assured and the loss can be reasonably estimated, the Company will recognize income if the written-off loan is recovered at a future date. In case of any foreclosure proceedings or legal actions being taken, the Company provides an accrual for the related foreclosure expenses and related litigation expenses. The Company also receives notes receivable from the JV Company to settle the accounts receivable.

**(g) Prepayments**

Prepayments represent cash paid in advance to suppliers, which also includes advances to raw material suppliers, mold manufacturers, and suppliers of equipment.

As of December 31, 2013, the Company recorded a significant prepayment made by the Company to a supplier Nanjing Shangtong (as defined in Note 16) as an advance of RMB 353 million (\$54,721,895) and deposited by Kandi Wanning (renamed to Kandi Hainan in January 2016) to Nanjing Shangtong. As of December 31, 2015, the advance to Nanjing Shangtong was transferred to construction-in-progress as described in Note 16.

Advances for raw materials purchases typically are settled within two months by the Company's receipt of raw materials. Prepayment is offset against purchase amount after equipment or materials are delivered.

**(h) Plant and Equipment**

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