

Kandi Technologies Group, Inc.
Form 10-K
March 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2017**

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 **90-0363723**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 **NASDAQ Global Select Market**
(Title of each class) (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

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," "smaller reporting company" and "Emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 30, 2017, the last business day of the registrant's second fiscal quarter, was approximately \$152,241,638.

The number of shares of common stock outstanding as of March 8, 2018 was 53,968,712.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

TABLE OF CONTENTS

PART I

Item 1.	<u>Business.</u>	1
Item 1A.	<u>Risk Factors.</u>	11
Item 1B.	<u>Unresolved Staff Comments.</u>	22
Item 2.	<u>Properties.</u>	22
Item 3.	<u>Legal Proceedings.</u>	24
Item 4.	<u>Mine Safety Disclosures.</u>	24

PART II

Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchase Equity Securities.</u>	25
Item 6.	<u>Selected Financial Data.</u>	27
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	28
Item 7A.	<u>Quantitative and Qualitative Disclosures about Market Risk.</u>	42
Item 8.	<u>Financial Statements and Supplementary Data.</u>	F-1
Item 9.	<u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.</u>	44
Item 9A.	<u>Controls and Procedures.</u>	44
Item 9B.	<u>Other Information.</u>	45

PART III

Item 10.	<u>Directors, Executive Officers and Corporate Governance.</u>	46
Item 11.	<u>Executive Compensation.</u>	50
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	55
Item 13.	<u>Certain Relationships and Related Transactions and Director Independence.</u>	56
Item 14.	<u>Principal Accounting Fees and Services.</u>	57

PART IV

Item 15.	<u>Exhibits, Financial Statement Schedules.</u>	58
-----------------	--	----

SIGNATURES

SPECIAL NOTE REGARDING FORWARD -LOOKING STATEMENTS

This Annual Report on Form 10-K (this “Annual Report”) contains certain forward -looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as “anticipate,” “expect,” “intend,” “plan,” “will,” “we believe,” “our company believes,” “management believes” and similar language. These forward-looking statements are based on our current expectations and are subject to certain risks, uncertainties and assumptions, including those set forth in the discussion under Item 1, “Business”, Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our actual results may differ materially from results anticipated in these forward-looking statements. We base our forward -looking statements on information currently available to us, and we assume no obligation to update them. In addition, our historical financial performance is not necessarily indicative of the results that may be expected in the future and we believe such comparisons cannot be relied upon as indicators of future performance.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

PART I

Except as otherwise indicated by the context, references in this Annual Report to “we,” “us,” “our,” “Kandi,” or the “Company” are to the combined businesses of Kandi Technologies Group, Inc. and its subsidiaries.

Item 1. Business Introduction

Our Core Business

The Company was mainly engaged in the development, production and distribution of the electric vehicle (“EV”) products, EV parts and off-road vehicle products.

Our Organizational Structure

The Company’s organizational chart as of March 8, 2018 is as follows:

Please refer to the discussion in NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES under Item 8 Notes to Consolidated Financial Statements for our organization structure and operating subsidiaries.

Industry Overview

Supported by the Chinese government's endorsement and driven by its focus on petroleum resource independence, environmental protection and the "Made in China 2025" industrial upgrade, the electric vehicle sector is the most promising segment in the Chinese auto industry. China has become the largest new energy vehicle market in the world. According to a government forecast, China's new energy vehicle sales are projected to grow to 2.1 million units in 2020, and its penetration is expected to reach 7% by 2020.

The fast growth of the electric vehicle sector in China is supported by the Chinese government's policies. The Chinese government endorses new energy vehicle long-term development. The electric vehicle boom was initiated by government efforts; including tax deductions and subsidies. China is the largest producer of and market for new-energy vehicles. There are over a million new-energy vehicles on China's roads, or half the world's total, and we expect China will soon become a global leader in the new energy vehicle sector.

Competitive Landscape

In general, our EV business faces the competition from two groups of competitors: one is the competition with traditional vehicle manufacturers and the other is the competition against other EV manufacturers.

In terms of the competition with the conventional fuel vehicle manufacturers, many of them are much larger in terms of size, having greater manufacturing capabilities, customer bases and financial, marketing and human resources than we do. However, the conventional fuel automobiles face many challenges, including but not limited to environmental pollution and energy scarcity, which provide great opportunities for the rapid development of EV industry in China. With the government's strong support and various policy incentives, the electric vehicle industry in China has great potential for growth in the future. We believe our exclusive focus on pure electric vehicles products and parts are the basis on which we can compete in the Chinese automotive market in spite of the challenges posed by our competition.

There are many companies in China that engage in the research, production and distribution of electric vehicles. Competitions within the electric vehicle market is intensive as we have to compete with many domestic and global, established and new EV manufactures nationwide, some of which have greater brand recognition and resources than

we do. As one of the front runners in the Chinese electric vehicle industry, we believe our innovative business model, deep industry knowledge; technological innovation, competitive pricing, and service options allow us to develop the best suitable products and solutions for our targeted customers in our niche market. In particular, the innovative MPT program that we have been advocating for years has been well received by our customers and praised by the Chinese government, which helps us to gain additional market share and compete effectively against other EV manufacturers.

Our Opportunities and Growth Strategy

Local governments in China are pushing for new electric vehicle adoption with strong policy support, due to worsening air pollution and concerns about petroleum resource independence. Benefiting from the new energy vehicle industry take-off, Kandi has become one of the front runners in China's electric vehicle industry, given its technology innovation with integrated solutions and operation experience.

Our business strategy includes efforts to provide customers with high-quality products, to expand our footprint in new and existing markets, and to advance our profile and the market demand through the further innovations in the Service Company's MPT Project and the JV Company's direct sales channel. To further these initiatives, we are working with our business partners to build an innovative system of public EV sharing stations to provide energy-efficient, convenient travel options for local citizens and tourists. We also provide EV products to end users through our distributors. We anticipate that our pure EV product business in China, through the operations of the JV Company and with the support of new Chinese subsidy policies, will continue to develop and grow in the future.

Today, cities in China face four critical challenges in the traffic environment, including pollution, traffic congestion, insufficient parking availability, and growing scarcity of energy supplies, which are mainly the result of ever growing volume of gas-powered private cars. The best solution to solve these problems is to increase more affordable public transportation for urban residents. Currently, subway and bus are the most popular public transportation options available. Subway and bus form the main artery of urban public transportation but such system is lack of capillary. In this regard, we introduced the car-share program by using pure electric vehicles, which is called "Micro Public Transportation" ("MPT") program. Urban public transportation system can be improved with the MPT program,

Since its inception, the MPT program has made impressive progress. As of the end of 2017, the MPT program had been launched in more than 30 cities, including many first-tier, second-tier, third-tier and fourth-tier cities in China such as Hangzhou, Shanghai, Chengdu, Nanjing, Guangzhou, Wuhan, Changsha, Kunming, Tianjin, Chongqing, Haikou, Shenzhen, etc.

In order to further improve the urban MPT program, based on the learning and experiences in the past years, we introduced a new timeshare car-share brand "QuanTianHou" (Car Share 24/7) in early 2017. As one of the most active practitioners of sharing economy model in today's China, this innovative business model provides a total solution to EV sharing and can be characterized by "Six No": no service station, no driving worry, no charging facility, no staff attended, no place restricted, and no environment pollution. No service station: users can pick up, use and return vehicles in any parking spot, which breaks the shackles of the difficulties of building stations in the past and the inconvenience of locating sites by users. No driving worry: platform remotely monitors battery usage of each vehicle and takes initiatives of battery exchange to low-power vehicles to ensure users have sufficient power and dispel their mileage concerns. No charging facility: by using professional operation truck for mobile battery exchange with added

cleaning services to idle vehicles, users are hand free during the process, which enhances user experience. No staff attended: by using internet of vehicles big data platform for smart operation and mobile phone APP interactive operation, lease and return vehicles are conducted in entire self-service mode. No place restricted: we will put in large-scale vehicles in a place to achieve full coverage without dead ends. No environment pollution: by adopting a unified low battery constant temperature slowly charging technology, the use life of battery can be effectively increased to achieve true green energy saving. In addition, combined with the formation of “ground help little brother” team, we provide shuttle bus and vehicle scheduling services to achieve service extension to car-share industry chain. From vehicle delivery, self-service use, mobile battery exchange, to vehicle scheduling, QuanTianHou model achieves a perfect closed-loop of all aspects of car-share. We have reason to believe that this reinventing business model advocated by Kandi and practiced by the Service Company will become the benchmark of urban car-share and play a significant role in the development of China’s urban travel ecosphere.

Our Products

General

For the years ended December 31, 2017, 2016 and 2015, our products include EV parts, EV products, and off-road vehicles including ATVs, utility vehicles (“UTVs”), go-karts, and others vehicles. Based on our market research on consumer demand trends, we have adjusted our production line strategically and continued to develop and manufacture new products in an effort to meet market demand and better serve our customers.

	Years Ended December 31,		
	2017	2016	2015
	Sales	Sales	Sales
EV parts	\$97,355,828	\$120,079,312	\$196,053,058
EV products	-	3,718,291	-
Off-road vehicles	5,449,793	5,694,410	5,016,115
Total	\$102,805,621	\$129,492,013	\$201,069,173

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

	Year Ended December 31,			2016			2015		
	2017	Percentage		Sales Revenue	Percentage		Sales Revenue	Percentage	
Overseas	\$4,817,517	5	%	\$4,919,054	4	%	\$4,713,441	2	%
China	97,988,104	95	%	124,572,959	96	%	196,355,732	98	%
Total	\$102,805,621	100	%	\$129,492,013	100	%	\$201,069,173	100	%

Sales and Distribution

In 2017, the Company sold two primary product lines: electric vehicle parts and off-road vehicles. Prior to 2014, the Company also featured EV products. As EV production was completely transferred to the JV Company at the end of 2014 pursuant to the JV Agreement, Kandi now focuses on EV parts production and supplies the JV Company with EV parts. In addition, Kandi continues to produce and sell off-road vehicles, which are our traditional products and are sold to domestic and international distributors or consumers.

Customers

As of December 31, 2017, our major customers, in the aggregate, accounted for 89% of our sales. The Company is working on developing new business partners and clients for our products to reduce our dependence on existing customers and is focusing our new business development efforts on our EV business.

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

	Sales				Trade Receivable			
	Year Ended	Year Ended	Year Ended		December 31,	December 31,	December 31,	
Major Customers	2017	2016	2015		2017	2016	2015	
Kandi Electric Vehicles Group Co., Ltd.	89%	59%	34%		71%	53%	55%	%

Sources of Supply

All raw materials are purchased from suppliers. We have developed close relationships with several key suppliers particularly in the procurement of certain key parts. While we obtain components from multiple third-party sources in some cases, we do not have, and do not anticipate having, any difficulty in obtaining required materials from our suppliers. We believe that we have adequate supplies or sources of availability of the raw materials necessary to meet our manufacturing and supply requirements.

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

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

Major Suppliers	Purchases			Accounts Payable		
	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	December 31, 2017	December 31, 2016	December 31, 2015
Dongguan Chuangming Battery Technology Co., Ltd.	26%	42	% 26	% 19	22	% 15
Zhejiang Tianneng Energy Technology Co., Ltd.	25%	23	% 20	% 11	15	% 24
Jinhua An Kao Power Technology Co., Ltd.	12%	-	-	3 %	-	-

Intellectual Property and Licenses

Our success depends, at least in part, on our ability to protect our core technology and intellectual property. We rely on a combination of patents, patent applications, trademarks, copyrights and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. As of December 31, 2017, we had 40 issued patents, 2 issued software copyrights and 14 pending patent applications with the Chinese patent authority, all related to electrical vehicle products, electrical vehicle parts or off-road vehicle products. Under Chinese patent law, an invention patent is valid for a term of 20 years and a utility or design patent is valid for a term of 10 years. All our patents are valid for 10 years. In addition, we are authorized to use the trademark “Kandi” and we are the owner of the trademark “JASSCOL”. Our 50/50 joint venture with Geely Holding Group is authorized to use the trademark “Global Hawk”. We intend to continue to file additional patent applications with respect to our technology.

Kandi Vehicles was certified in intellectual property management systems in 2017 and is recognized as a national excellent intellectual property enterprise by the Chinese government. In addition, we received a patent authorization related to EV control and battery charging in February 2018, which is valid for a term of 20 years.

Employees

As of December 31, 2017, excluding the contractors and the employees with the JV Company, Kandi had a total of 564 full-time employees, as compared to 497 full-time employees on December 31, 2016, of which 366 employees are production personnel, 13 employees are sales personnel, 74 employees are research and development personnel, and 111 employees are administrative personnel. None of our employees are covered by collective bargaining agreements. We consider our relationships with our employees to be good. We also employ consultants on an as-needed basis.

Environmental and Safety Regulation

Emissions

Our products are all subject to international laws and emissions related regulations, including regulations and related standards established by China Environmental Protection Agency, the United States Environmental Protection Agency, the California Air Resources Board, and European and Canadian legislative bodies.

To the knowledge of the management, Kandi's products comply with applicable emission standards and regulations in China, the United States, Europe and Canada. However, in the event any of our current standards and regulations are amended or interpreted differently in the future, we cannot evaluate the impact on our business such changes may bring.

Product Safety and Regulation

Safety Regulation

The U.S. federal government and individual states have adopted, or are considering the adoption of, laws and regulations relating to the use and safety of Kandi's products. The federal government is the primary regulator of product safety. The Consumer Product Safety Commission ("CPSC") has federal oversight over product safety issues related to ATVs and off-road vehicles. The National Highway Transportation Safety Administration ("NHTSA") has federal oversight over product safety issues related to off-road vehicles.

In August 2008, the Consumer Product Safety Improvement Act (the "Product Safety Act") was passed. The Product Safety Act requires all manufacturers and distributors who import into or distribute ATVs within the United States to comply with the American National Standards Institute/Specialty Vehicle Institute of America ("ANSI/SVIA") safety standard, which previously had been voluntary. The Product Safety Act also requires the same manufacturers and distributors to have ATV action plans filed with the CPSC that are substantially similar to the voluntary action plans that were previously in effect. Kandi currently complies with the ANSI/SVIA standard.

Kandi's off-road vehicles are subject to federal vehicle safety standards administered by NHTSA. Kandi's off-road vehicles are also subject to various state vehicle safety standards. Kandi believes that its off-road vehicles comply with safety standards applicable to off-road vehicles.

Kandi's products are also subject to international safety standards in places where it sells its products outside the United States. Kandi believes that its off-road vehicle products comply with applicable safety standards in the United States and internationally.

Principal Executive Offices

Our principal executive office is located in the Jinhua City Industrial Zone in Jinhua, Zhejiang Province, PRC, 321016, and our telephone number is (86-579) 82239856.

Recent Development Activities

On November 28, 2017, the JV Company, Jiangxi Changyun Co., LTD. (“Jiangxi Changyun”) and Zhejiang ZuoZhongYou Electric Vehicle Service Co., LTD. signed a Strategic Cooperation Framework Agreement. The three parties will each focus on their special area in manufacturing and sales of electric passenger vehicles. Moreover, partnering together to develop the new energy vehicle sharing project to help upgrading rural passenger transportation system. The mission is to jointly set up a new energy vehicle-sharing operation company and will launch pure electric passenger vehicles sharing project in Jiangxi province. Jiangxi Changyun is a company with the first-grade qualification of road passenger transportation mainly focusing on road passenger transportation, construction and maintenance of passenger station, bus transportation, travel services, logistics, auto rental, logistics management and so on. In July 2002, the company became public on the Shanghai stock exchange and became the first listed company that is engaged in the road passenger service in China’s capital market. The company’s stock is traded under 600561 as Jiangxi Changyun. Jiangxi Changyun is recognized as “the key road transport enterprise” from the transportation department. At present, the company has station resources and class line resources spreading out in 9 prefectural-level cities in 11 districts, as well as bus stations and bus operating lines located in 4 districts in Jiangxi Province. The company is operating over 88 level-II bus stations. The road passenger transport market in Jiangxi province has now growing sizable with network, intensity and integration advantage. It is named as one of the leading 50 enterprises in Jiangxi province, among “the top 100 road transport enterprises” in China, and “one of the earliest demonstration enterprises in national passenger transportation industry” granted by the local committee of China Communications and Transportation Association. Additionally, it has also been successively awarded by China Association of Communication Enterprise Management for the “outstanding contribution enterprise” reward in national traffic transportation energy conservation and emissions reduction.

On December 6, 2017, we announced that Geely Brand Electric Vehicle (“EV”) SMA7000BEV20 (Model K22), developed by the JV Company, is listed on two approved directories: the 11th approved Directory of Recommended Models for Energy Saving and New Energy Vehicle Demonstration and Promotion, commonly known as Public Notice No. 55, published by China’s Ministry of Industry and Information Technology (“MIIT”) on December 4, 2017, and the 14th approved Directory of Vehicle Purchase Tax Exemption for New Energy Vehicles, commonly known as Public Notice No. 56, published by MIIT and the State Administration of Taxation (“SAT”) on December 5, 2017. As a result, the purchasers of Model K22 are now qualified to receive all levels of national and local subsidies and a purchase tax exemption.

On December 13, 2017, Zhang Xuhui, Director of the Jinhua Development Zone (the “Development Zone”) Management Committee along with other two folks visited Hangzhou to discuss with Chairman Hu Xiaoming regarding to the commercialization of Kandi Vehicle’s 400 acres land from the industrial use after acquiring, as well as the company relocation to Jinhua New Energy Industrial Park. It is noteworthy that the price of Kandi Vehicle factory’s surrounding area has exceeded RMB20,000 per square meter, and the value of the land around the factory area has been greatly increased since the land became for commercial use after the government’s revised allocation. If the negotiation is reached to an agreement, it is expected that Kandi Vehicles will receive more than RMB 1 billion in cash compensation from the Development Zone.

On December 18, 2017, we announced that our wholly-owned subsidiary, Zhejiang Kandi Vehicles Co., Ltd. (“Kandi Vehicles”), and the sole shareholder (the “Transferor”) of Jinhua An Kao Power Technology Co., Ltd. (“Jinhua An Kao”) entered into a Share Transfer Agreement (the “Share Transfer Agreement”) and a Supplementary Agreement (the “Supplementary Agreement”), pursuant to which Kandi Vehicles acquired Jinhua An Kao. We believe this acquisition will position Kandi to become a stronger industry player through vertical integration. The two agreements were signed on December 12, 2017 and the closing took place on January 3, 2018. Kandi Vehicles acquired all the equity interests of Jinhua An Kao for a purchase price of approximately RMB25.93 million (approximately \$3.9 million) in cash. In addition, pursuant to the Supplementary Agreement by and between the two parties, the Company issued a total of 2,959,837 shares of restrictive stock (the “Shares”), or 6.2% of the Company’s total outstanding shares of the common stock to the Transferor and his designated persons. An additional 2,959,837 shares are placed as make good shares for the undertaking of Jinhua An Kao to achieve no less than a total of RMB120,000,000 (approximately \$18.1 million) net income over the course of the following three years. The Supplementary Agreement sets forth the terms and conditions of the issuance of these shares. In November 28, Jinhua An Kao and Hangzhou Yao Ding Automation Technology Co. Ltd. (“Hangzhou Yao Ding”) signed a Framework Cooperation Agreement for Hangzhou Yao Ding’s procurement of no less than RMB 200 million (approximately \$30.2 million) battery packs and charging equipment from Jinhua An Kao. Hangzhou Yao Ding, a wholly-owned subsidiary of Zhejiang Shi Kong Electric Vehicle Co. Ltd, engages in battery exchange services and currently operates in Hangzhou, Changsha, Suzhou, Shanghai for DiDi internet EV ride - hauling. Together, we are confident about our combined efforts in expanding our markets and increasing our profitability.

On December 22, 2017, we announced that the Global Hawk SUV model K26 developed by the JV Company Research Institute has passed its own internal quality checks and evaluation by auto professionals. This SUV is equipped with an advanced drive motor, vehicle control system (user remote control over vehicle software and remote monitoring), and regenerative braking that recovers over 18% of the vehicle’s kinetic energy. Packaged with the ternary lithium battery, the vehicle has a top speed of 110 km/h and a driving range exceeding 250 km on a single charge. This SUV is ranked the top luxury pure electric vehicle developed by the JV Company.

On January 13, 2018, Geely Group and Jiangxi people’s Government entered a Strategic Cooperation Framework Agreement. The scope of the agreement includes renewable energy investment in Shangrao regarding a new generation of urban commercial vehicle project and micro public transportation project in Jiangxi Province. Qi Liu, Governor of Jiangxi Province, Li Shufu, Chairman of Geely, and Hu Xiaoming, Chairman of the JV Company attended the signing ceremony.

On January 19, 2018, Chairman Hu Xiaoming visited the National Development and Reform Commission (“NDRC”) to learn the status of the JV Company’s manufacturing license application. On March 15, 2017, the JV Company submitted an application to the government service hall of the NDRC with an annual output of 50,000 pure electric passenger vehicle construction project; On March 20, 2017, the industrial division mechanical equipment office formally accepted the application; From April 13 to 15, 2017, the project appraisal expert team performed an on-site comprehensive inspection and evaluation. We were given top marks from the expert and gave a satisfying affirmation. The team spoke highly of the Kandi products. We passed the expert team’s review and our application was submitted to NDRC for approval. Due to the new standard on the renewable energy vehicle project during the political transition

period, the approval process was temporarily suspended. The NDRC promised that the JV Company will have priority to receive the approval after the political transition period.

On January 24, 2018, Wenyu Xiao, the Standing Vice Mayor of Nanchang City, Jiangxi Province, together with a group of 11 political leaders visited the headquarter of Geely for discussion of investment in Nanchang City. Li Shufu, Chairman of Geely, Zhihao Xu, CEO of Geely, and Hu Xiaoming, Chairman of the JV Company Hu Xiaoming hosted the delegation group.

On February 9, 2018, the Hainan representatives of twelfth and thirteenth National People's Congress, along with other provincial and local political leaders toured the Kandi Electric Vehicles (Hainan) Co., Ltd. ("Kandi Hainan") production facility (the "Hainan Facility") on February 9, 2018. The delegation group consists of over 50 people, led by Luo Baoming, the former party secretary of Hainan Province, Director of the Standing Committee of the National People's Congress and Xu Jun, Deputy Director of the Standing Committee of the Hainan Provincial People's Congress. Hu Xiaoming, the Chairman of Kandi, escorted the delegation group and provided them with an overview of the Hainan Facility, highlighting the progress updates on the completion of equipment installation, trial production, and assembly lines. The company is planning on hosting its product launch ceremony on March 28, 2018. The group praised the progress of construction and felt confident about the Hainan Facility. Hainan, with its unpolluted environment and natural scenery, is among the top tourist destinations in China and has effective vehicle emissions regulations. The renewable energy vehicles manufactured by Kandi Hainan will be a great addition to Hainan's auto industry and the model's increased quality will contribute to efforts to keep Hainan's environment pristine. The group urged to the government at all levels to continuously support the development of Hainan Facility and recommended it as a role model for Hainan's economic growth and economic transformation.

On February 11, 2018, Geely, the JV Company, and Zhidou Electric Vehicle Co., LTD. ("Zhidou") signed a joint venture agreement. The three parties will integrate its resources to jointly develop pure electric vehicle technology with a focus on the chassis technology. The goal is to conduct an independent research and development of pure electric vehicles and become the world's leading and the nation's first-class pure electric vehicle research institute. The research institute will be invested in RMB 100 million in the 1st stage, in which Geely contributes RMB 34 million for 34% of equity interest, and the JV Company and Zhidou each contributes RMB 33 million for 33% of equity interest. The research institute is expected to have 800 research & development personnel by 2019. The JV Company plans to launch the newly developed product in the market from the research institute in 2021.

On February 26, 2018, Yuanqing Chen, General Manager of Jiangling Motor Group company with other two folks visited Geely to discuss cooperation. Zhaoxing Wang, vice President of Geely, Jianqun Zhou, President of Zhejiang Geely New Energy Commercial Vehicle co., LTD. and Hu Xiaoming, Chairman of the JV Company hosted Yuanqing Chen and his group. Geely, the JV Company and Jiangling had preliminary talks on potential cooperation and it is expected for each to come up an action plan and aiming for achieve success partnership with government support from Jiangxi Province and Nanchang City.

Item 1A. Risk Factors.

You should carefully consider the risks described below together with all of the other information included in this report before making an investment decision with regard to our securities. The statements contained in or incorporated into this Annual Report that are not historic facts are forward -looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward -looking statements. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Our future growth is dependent upon consumers' willingness to adopt EVs.

Our growth is highly dependent upon the adoption by consumers of, and we are subject to a risk of any reduced demand for, alternative fuel vehicles in general and EVs in particular. The market for alternative fuel vehicles (including EVs) is relatively new and rapidly evolving, characterized by rapidly changing technologies, price competition, additional competitors, evolving government regulation and industry standards, frequent new vehicle announcements and changing consumer demands and behaviors. If the market for EVs in China does not develop as we expect or develops more slowly than we expect, our business, prospects, financial condition and operating results will be harmed.

Developments in alternative technologies or improvements in the internal combustion engine may materially adversely affect the demand for our EV Products.

Significant developments in alternative technologies, such as advanced diesel, ethanol, fuel cells or compressed natural gas, or improvements in the fuel economy of the internal combustion engine, may materially and adversely affect our business and prospects in ways we do not currently anticipate. Any failure by us to develop new or enhanced technologies or processes, or to react to changes in existing technologies, could materially delay our development and introduction of new and enhanced EV products, which could result in the loss of competitiveness of our vehicles, decreased revenue and a loss of market share to competitors.

If we are unable to keep up with advances in electric vehicle technology, we may suffer a decline in our competitive position.

We may be unable to keep up with changes in EV technology, and we may suffer a resulting decline in our competitive position. Any failure to keep up with advances in EV technology would result in a decline in our competitive position which would materially and adversely affect our business, prospects, operating results and financial condition. Our research and development efforts may not be sufficient to adapt to changes in EV technology. As technologies change, we plan to upgrade or adapt the vehicles and introduce new models in order to continue to provide vehicles with the latest technology, in particular battery cell technology. However, our vehicles may not compete effectively with alternative vehicles if we are not able to source and integrate the latest technology into our vehicles. For example, we do not manufacture battery cells, which makes us dependent upon other suppliers of battery cell technology for our battery packs.

Our business depends substantially on the continuing efforts of our executive officers, and our business may be severely disrupted if we lose their services.

Our future success depends substantially on the continued services of our executive officers, especially our CEO and Chairman of the Board, Mr. Hu Xiaoming. We do not maintain key man life insurance on any of our executive officers. If any of our executive officers are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers. In addition, if any of our executive officers joins a competitor or forms a competing company, we may lose some of our customers.

We may be subject to product liability claims or recalls which could be expensive, damage our reputation or result in a diversion of management resources.

We may be subject to lawsuits resulting from injuries associated with the use of the vehicles that we sell or produce. We may incur losses relating to these claims or the defense of these claims. There is a risk that claims or liabilities will exceed our insurance coverage. In addition, we may be unable to retain adequate liability insurance in the future.

We may also be required to participate in recalls involving our vehicles, if any prove to be defective, or we may voluntarily initiate a recall or make payments related to such claims as a result of various industry or business practices or the need to maintain good customer relationships. Such a recall would result in a diversion of resources. While we do maintain product liability insurance, we cannot assure investors that it will be sufficient to cover all product liability claims, that such claims will not exceed our insurance coverage limits or that such insurance will continue to be available on commercially reasonable terms, if at all. Any product liability claim brought against us could have a material adverse effect on the results of our operations.

We retain certain personal information about our customers and may be subject to various privacy and consumer protection laws.

We and our operating companies use the electronic systems of our vehicles to log information about each vehicle's condition, performance and use in order to aid us in providing customer service, including vehicle diagnostics, repair and maintenance, as well as to help us collect data regarding our customers' charge time, battery usage, mileage and efficiency habits and to improve our vehicles. We also collect information about our customers through our website, at our stores and facilities, and via telephone.

Our customers may object to the processing of this data, which may negatively impact our ability to provide effective customer service and develop new vehicles and products. Collection and use of our customers' personal information in conducting our business may be subject to national and local laws and regulations in China, and such laws and regulations may restrict our processing of such personal information and hinder our ability to attract new customers or market to existing customers. We may incur significant expenses to comply with privacy, consumer protection and security standards and protocols imposed by law, regulation, industry standards or contractual obligations. Although we take steps to protect the security of our customers' personal information, we may be required to expend significant resources to comply with data breach requirements if third parties improperly obtain and use the personal information of our customers or we otherwise experience a data loss with respect to customers' personal information. A major breach of our network security and systems could have serious negative consequences for our businesses and future prospects, including possible fines, penalties and damages, reduced customer demand for our vehicles, and harm to our reputation and brand.

Our business will be adversely affected if we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties.

Any failure to adequately protect our proprietary rights could result in the weakening or loss of such rights, which may allow our competitors to offer similar or identical products or use identical or confusingly similar branding, potentially resulting in the loss of some of our competitive advantage, a decrease in our revenue or an attribution of potentially lower quality products to us, which would adversely affect our business, prospects, financial condition and operating results. Our success depends, at least in part, on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patents, patent applications, trade secrets (including know-how), employee and third-party nondisclosure agreements, copyright protection, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology. We have also received from third parties patent licenses related to manufacturing our vehicles.

The protection provided by the patent laws is and will be important to our future opportunities. However, such patents and agreements and various other measures we take to protect our intellectual property from use by others may not be effective for various reasons, including the following:

- our pending patent applications may not result in the issuance of patents;
- our patents, if issued, may not be broad enough to protect our commercial endeavors;
- the patents we have been granted may be challenged, invalidated or circumvented because of the pre-existence of similar patented or unpatented technology or for other reasons;
- the costs associated with obtaining and enforcing patents, confidentiality and invention agreements or other intellectual property rights may make aggressive enforcement impracticable; or
- current and future competitors may independently develop similar technology, duplicate our vehicles or design new vehicles in a way that circumvents our intellectual property.

Existing trademark and trade secret laws and confidentiality agreements afford only limited protections. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States, and policing the unauthorized use of our intellectual property is difficult.

We may need to defend ourselves against patent or trademark infringement claims, which may be time-consuming and could cause us to incur substantial costs.

Companies, organizations or individuals, including our competitors, may hold or obtain patents, trademarks or other proprietary rights that would prevent, limit or interfere with our ability to make, use, develop, sell or market our vehicles or components, which could make it more difficult for us to operate our business. From time to time, we may receive inquiries from holders of patents or trademarks regarding their proprietary rights. Companies holding patents or other intellectual property rights may bring suits alleging infringement of such rights or otherwise assert their rights and seek licenses. In addition, if we are determined to have infringed upon a third party's intellectual property rights, we may be required to do one or more of the following:

- cease selling, incorporating or using vehicles or offering goods or services that incorporate or use the challenged intellectual property;
- pay substantial damages;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or
- redesign our vehicles or other goods or services.

In the event of a successful claim of infringement against us and our failure or inability to obtain a license to the infringed technology or other intellectual property right, our business, prospects, operating results and financial condition could be materially adversely affected. In addition, any litigation or claims, whether or not valid, could result in substantial costs and diversion of resources and management attention.

We may also face claims that our use of technology licensed or otherwise obtained from a third party infringes the rights of others. In such cases, we may seek indemnification from our licensors/suppliers under our contracts with them. However, indemnification may be unavailable or insufficient to cover our costs and losses, depending on our use of the technology, whether we choose to retain control over conduct of the litigation, and other factors.

Our vehicles make use of lithium-ion battery cells, which have the potential to catch fire or vent smoke and flame. This may lead to additional concerns about batteries used in automotive applications.

The battery packs in our EV products make use of lithium-ion cells. We also currently intend to make use of lithium-ion cells in battery packs on any future vehicles we may produce. On rare occasions, lithium-ion cells can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials as well as other lithium-ion cells. Extremely rare incidents of laptop computers, cell phones and EV battery packs catching fire have focused consumer attention on the safety of these cells.

These events have raised concerns about batteries used in automotive applications. To address these questions and concerns, a number of battery cell manufacturers are pursuing alternative lithium-ion battery cell chemistries to improve safety. We may have to recall our vehicles or participate in a recall of a vehicle that contains our battery packs, or redesign our battery packs, which would be time consuming and expensive. Also, negative public perceptions regarding the suitability of lithium-ion cells for automotive applications or any future incident involving lithium-ion cells such as a vehicle or other fire, even if such incident does not involve us, could seriously harm our business.

In addition, we store a significant number of lithium-ion cells at our manufacturing facility. Any mishandling of battery cells may cause disruption to the operation of our facilities. While we have implemented safety procedures related to the handling of the cells, there can be no assurance that a safety issue or fire related to the cells would not disrupt our operations. Such damage or injury would likely lead to adverse publicity and potentially a safety recall. Moreover, any failure of a competitor's EV, may cause indirect adverse publicity for us and our EV products. Such adverse publicity would negatively affect our brand and harm our business, prospects, financial condition and operating results.

Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages and fines.

Our business operations generate noise, waste water, gaseous byproduct and other industrial waste. We are required to comply with all national and local regulations regarding the protection of the environment. We are in compliance with current environmental protection requirements and have all necessary environmental permits to conduct our business. However, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. Additionally, if we fail to comply with present or future environmental regulations, we may be required to pay substantial fines, suspend production or cease operations. Any failure by us to control the use of, or to adequately restrict the unauthorized discharge of, hazardous substances could subject us to potentially significant monetary damages and fines or suspensions to our business operations. Certain laws, ordinances and regulations could limit our ability to develop, use, or sell our products.

Our high concentration of sales to relatively few customers may result in significant impact on our liquidity, business, results of operations and financial condition.

As of December 31, 2017 and 2016 our major customers (above 10% of the total revenue), in the aggregate, accounted for 89% and 89%, respectively, of our sales. Due to the concentration of sales to relatively few customers including the JV Company, loss of one or more of these customers will have relatively high impact on our operational results. In the event that our relationship with the JV Company and/or our partner in the JV Company changes negatively, our operating results would be materially negatively affected.

Our business is subject to the risk of supplier concentrations.

We depend on a limited number of suppliers for the sourcing of major components and parts and principal raw materials. For the years ended December 31, 2017 and 2016 our top two suppliers accounted for 51% and 65% of our purchases, respectively. As a result of this concentration in our supply chain, our business and operations would be

negatively affected if any of our key suppliers were to experience significant disruption affecting the price, quality, availability or timely delivery of their products. The partial or complete loss of these suppliers, or a significant adverse change in our relationship with any of these suppliers, could result in lost revenue, added costs and distribution delays that could harm our business and customer relationships. In addition, concentration in our supply chain can exacerbate our exposure to risks associated with the termination by key suppliers of our distribution agreements or any adverse change in the terms of such agreements, which could have a negative impact on our revenues and profitability.

Our facilities or operations could be damaged or adversely affected as a result of disasters or unpredictable events.

Our headquarters and facilities are located in several cities in China such as Jinhua, Yongkang and Haikou. If major disasters such as earthquakes, fires, floods, hurricanes, wars, terrorist attacks, computer viruses, pandemics or other events occur, or our information system or communications network breaks down or operates improperly, our headquarters and production facilities may be seriously damaged, or we may have to stop or delay production and shipment of our products. We may incur expenses relating to such damages, which could have a material adverse impact on our business, operating results and financial condition.

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

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

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

The audit report included in this Annual Report was prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, as a result, investors are deprived of the benefits of such inspection.

The independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the “PCAOB”, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct inspections in China prevents the PCAOB from regularly evaluating our auditor's statements, audits and quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's quality control and audit procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Risks Related to Doing Business in China

The economy of China had experienced unprecedented growth. This growth has slowed in the recent years, and if the growth of the economy continues to slow or if the economy contracts, our financial condition may be materially and adversely affected.

The rapid growth of the Chinese economy had historically resulted in widespread growth opportunities for industries across China. This growth has slowed in the recent years. As a result of the global financial crisis and the inability of enterprises to gain comparable access to the same amounts of capital available in past years, there may be an adverse effect on the business climate and growth of private enterprise in China. An economic slowdown could have an adverse effect on our sales and may increase our costs. Further, if economic growth continues to slow, and if, in conjunction, inflation continues unchecked, our costs would be likely to increase, and there can be no assurance that we would be able to increase our prices to an extent that would offset the increase in our expenses.

In addition, a tightening of the labor markets in our geographic region may result in fewer qualified applicants for job openings in our facilities. Further, higher wages, related labor costs and other increasing cost trends may negatively impact our results.

Changes in political and economic conditions may affect our business operations and profitability.

Since our business operations are primarily located in China, our business operations and financial position are subject, to a significant degree, to the economic, political and legal developments in China.

While the Chinese government has not halted its economic reform policy since 1978, any significant adverse changes in the social, political and economic conditions of China may fundamentally impact China's economic reform policies, and thus the Company's operations and profits may be adversely affected.

Uncertainties with respect to the Chinese legal system could have a material adverse effect on us and may restrict the level of legal protections to foreign investors.

China's legal system is based on statutory law. Unlike the common law system, statutory law is based primarily on written statutes. Previous court decisions may be cited as persuasive authority but do not have a binding effect. Since 1979, the Chinese government has been promulgating and amending laws and regulations regarding economic matters, such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, since these laws and regulations are relatively new, and the Chinese legal system continues to rapidly evolve, the interpretation of many laws, regulations and rules is not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us.

In addition, any litigation in China may be protracted and may result in substantial costs and diversion of resources and management's attention. The legal system in China cannot provide investors with the same level of protection as in the U.S. The Company is governed by laws and regulations generally applicable to local enterprises in China. Many of these laws and regulations were recently introduced and remain experimental in nature and subject to changes and refinements. Interpretation, implementation and enforcement of the existing laws and regulations can be uncertain and unpredictable and therefore may restrict the legal protections available to foreign investors.

Changes in currency conversion policies in China may have a material adverse effect on us.

Renminbi ("RMB") is still not a freely exchangeable currency. Since 1998, the State Administration of Foreign Exchange of China has promulgated a series of circulars and rules in order to enhance verification of foreign exchange payments under a Chinese entity's current account items, and has imposed strict requirements on borrowing and repayments of foreign exchange debts from and to foreign creditors under the capital account items and on the creation of foreign security in favor of foreign creditors.

This may complicate foreign exchange payments to foreign creditors under the current account items and thus may affect the ability to borrow under international commercial loans, the creation of foreign security, and the borrowing of RMB under guarantees in foreign currencies. Moreover, the value of RMB may become subject to supply and demand, which could be largely impacted by international economic and political environments. Any fluctuations in the exchange rate of RMB could have an adverse effect on the operational and financial condition of the Company and its subsidiaries in China.

Fluctuations in exchange rates could adversely affect our business and the value of our securities.

The value of our common stock will be indirectly affected by the foreign exchange rate between U.S. dollars and RMB and between those currencies and other currencies in which our sales may be denominated. Because substantially all of our earnings and cash assets are denominated in RMB, fluctuations in the exchange rate between the U.S. dollar and the RMB will affect our balance sheet and our earnings per share in U.S. dollars. In addition, appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

Investors may experience difficulties in effecting service of legal process, enforcing judgements or bringing original actions based on United States or foreign laws against us or our management.

We conduct substantially all of our operations in China and almost all of our assets are located in China. In addition, almost all of our senior executive officers reside in China. As a result, it may not be possible to effect service of process on our senior executive officers within the United States or elsewhere outside China, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our Chinese counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of court orders and final judgments.

Changes to the government's subsidy support policies and further delays in subsidy payments may have negative impacts on our operations.

The central government subsidy support policies effective as of January 1, 2017, call for a 20% of reduction in central government subsidies per car in 2017 from the 2016 level and the total local government subsidy match to be not more than 50% of the total central government subsidies per car. The reduction of subsidies from both the central government and local governments will inevitably increase the costs to the consumers to purchase our JV Company's EVs, which may cause temporary pressure for the JV Company to expand its EV sales. The change in subsidy payment methods in 2017 from paid in advance to paid post-sale and any further delay in releasing subsidy payments for the EVs manufactured and sold in the prior years might also cause the potential delay in collection of the accounts receivable from our business partners, which will temporarily increase the pressure on our working capital for continuing operations. The unavailability, reduction or elimination of government and economic incentives could have a material adverse effect on our business, financial condition, operating results and prospects.

Risks Relating to Ownership of Our Securities

Our stock price may be volatile, which may result in losses for our shareholders.

The stock markets have experienced significant price and trading volume fluctuations. Although our stock was listed on the NASDAQ Global Market and upgraded to the NASDAQ Global Select Market on January 2, 2014, the trading price of our common stock may be volatile and could fluctuate significantly in response to many factors, including the following, some of which are beyond our control:

variations in our operating results;
changes in expectations of our future financial performance, including financial estimates by securities analysts and investors;
changes in operating and stock price performance of other companies in our industry;
additions or departures of key personnel; or
future sales of our common stock.

Domestic and international stock markets often experience significant price and volume fluctuations. These fluctuations, as well as general economic and political conditions unrelated to our performance, may adversely affect the price of our common stock.

Mr. Hu, our CEO, President and Chairman of our Board, is the beneficial owner of a substantial portion of our outstanding common stock, which may enable Mr. Hu to exert significant influence on corporate actions.

Excelvantage Group Limited controls approximately 25.9% of our outstanding shares of common stock as of December 31, 2017. Hu Xiaoming, the Company's Chief Executive Officer, President and Chairman of the Board of Directors, is the sole stockholder of Excelvantage Group Limited. Together with the shares held through Excelvantage Group Limited, Mr. Hu controls 28.4% of our outstanding shares of common stock, which could have a substantial impact on matters requiring the vote of our shareholders, including the election of our directors and other corporate actions. This control could delay, defer or prevent others from initiating a potential merger, takeover or other change in control, even if these actions would benefit our other shareholders and the Company. This control could adversely affect the voting and other rights of our other shareholders and could depress the market price of our common stock.

We do not anticipate paying cash dividends to our common shareholders.

We presently do not anticipate that we will pay dividends on any of our common stock in the foreseeable future. If payment of dividends does occur at some point in the future, it would be contingent upon our revenues and earnings, if any, capital requirements, and general financial condition. The payment of any common stock dividends will be within the discretion of our Board. We presently intend to retain all earnings in order to implement our business plan; accordingly, we do not anticipate the declaration of any dividends for common stock in the foreseeable future.

The limitation of monetary liability against our directors, officers and employees under Delaware Law and the existence of statutory indemnification rights of our directors, officers and employees may result in substantial expenditures by our company and may discourage lawsuits against our directors, officers and employees.

Our articles of incorporation do not contain any specific provisions that limit the liability of our directors for monetary damages to our Company or shareholders; however, we are prepared to indemnify our directors and officers to the extent provided for by Delaware law. We may also have included contractual indemnification obligations in our employment agreements with our officers. The foregoing indemnification obligations could result in the Company incurring substantial expenditures to cover the cost of settlement or damage awards against its directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage our Company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors and officers even though such actions, if successful, might otherwise benefit our Company and shareholders.

We may require additional capital, and the sale of additional shares or other equity securities could result in additional dilution to our shareholders.

In the future, we may require additional cash resources due to changed business conditions or other future developments, including investments or acquisitions that we may decide to pursue. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure investors that financing will be available, if at all, in amounts or on terms acceptable to us.

Our business is subject to changing regulations related to corporate governance and public disclosure that may increase both our costs and the risk of noncompliance.

Because our common stock is publicly traded, we are subject to certain rules and regulations of federal, state and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities, including the Public Company Accounting Oversight Board, the SEC and NASDAQ, have issued requirements and regulations and continue to develop additional regulations and requirements in response to corporate scandals and laws enacted by Congress. Our efforts to comply with these regulations have resulted in, and are likely to continue resulting in, increased general and administrative expenses and diversion of management time and attention from revenue -generating activities to compliance activities. Because new and modified laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices.

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

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

occasion in large scale and broad base.

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Kandi has the following granted land use rights:

Location	Area (square meters)	Term and Expiration	Certificate No.
Zhejiang Jinhua Industrial Park	72,901	Nov 13, 2002 - Nov 13, 2052	10-75013
Zhejiang Jinhua Industrial Park	39,491	Nov 13, 2002 - Nov 13, 2052	10-75014
Zhejiang Jinhua Industrial Park	46,651	Dec 30, 2003 - Dec 30, 2053	110-12504
Zhejiang Jinhua Industrial Park	37,515	Dec 30, 2003 - Dec 30, 2053	110-12850
Zhejiang Jinhua Industrial Park	49,162	Dec 30, 2003 - Dec 30, 2053	110-11343
Zhejiang Jinhua Industrial Park	19,309	Dec 07, 2009 - Dec 07, 2059	110-05918
Zhejiang Qiaoxia Industrial Park	9,405	Apr 03, 2001 – Apr 03, 2051	574-26-36

All land in China is owned by the government and cannot be sold or transferred by or to any individual or private entity. Instead, the government grants or allocates landholders “land use rights.” There are four methods to acquire land use rights:

grant of the right to use land;
assignment of the right to use land;
lease of the right to use land; or
allocated land use rights.

In comparison with Western common law concepts, granted land use rights are similar to life estates and allocated land use rights are in some ways similar to leaseholds.

Granted land use rights are provided by the Chinese government in exchange for a grant fee and carry the rights to pledge, mortgage, lease, and transfer during the term of the grant. Land is granted for a fixed term, which is generally 70 years for residential use, 50 years for industrial use, and 40 years for commercial or other use. The term is renewable in theory. Granted land must be used for the specific purpose for which it was granted.

Allocated land use rights cannot be pledged, mortgaged, leased, or transferred. They are generally provided by the government for an indefinite period (usually to state-owned entities) and can be reclaimed by the government at any time. Allocated land use rights may be converted into granted land use rights upon the payment of a grant fee to the government.

Kandi has the following real estate properties:

Jinhua City, Zhejiang

The Company owns the following facilities located in Jinhua Industrial Park, Jinhua City, Zhejiang Province, China. The table below lists the primary facilities and the status of each facility:

Description	Area (square meters)	Status
Factories	93,979	Fully operational
Sales Center	3,130	Fully operational
Test Center	2,220	Fully operational
Staff quarters	8,090	Fully operational
Canteen	2,602	Fully operational

Yongkang City, Zhejiang

The Company owns the following facilities located in Yongkang City, Zhejiang Province, China. The table below lists the primary facilities and the status of each facility:

Description	Area (square meters)	Status
Office	1,301	Fully operational
Factories	4,457	Fully operational
Warehouse	341	Fully operational
Multi-purpose room	480	Fully operational

Haikou City, Hainan

In December 2015, the Company signed an investment contract with Haikou State High Technology Industry Development Zone to build up the EV production facility in Haikou City to an annual production of 100,000 EV products. The Company originally acquired the land use rights and began construction to build EV production factories in Wanning City, Hainan Province, China in 2014. Because the government of Hainan Province is enforcing a new plan to centralize the manufacturing in designated industrial parks, the Wanning facility was relocated from Wanning City to the national high tech development zone in Haikou City. Kandi Hainan expects to obtain more support from the government of Hainan Province and Haikou City in connection with the relocation. In addition, all related direct expenses or assets disposal caused by the relocation were compensated by local government.

Description	Area (square meters)	Status
Factories	196,000*	In progress

* Estimate number based on investment agreement signed with local government.

Item 3. Legal Proceedings.

From time to time, the Company is involved in legal matters arising in the ordinary course of business. Except as set forth in Note 23 - COMMITMENTS AND CONTINGENCIES under Item 8 Notes to Consolidated Financial Statements, our management is currently not aware of any legal matters or pending litigation that would have a significant effect on the Company's results of operation of financial statements. For the detailed discussion of our legal proceedings, please refer to Note 23 - COMMITMENTS AND CONTINGENCIES under Item 8 Notes to Consolidated Financial Statements, which is incorporated by reference herein,

Other than the above described legal proceedings, the Company is not aware of any other legal matters in which any director, officer, or any owner of record or beneficial owner of more than five percent of any class of voting securities of the Company, or any affiliate of any such director, officer, affiliate of the Company, or security holder, is a party adverse to the Company or has a material adverse interest to the Company. No provision has been made in the consolidated financial statements for the above contingencies.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***Market Information*

On January 2, 2014, our common stock began trading on the NASDAQ Global Select Market under the symbol “KNDI”. The following sets forth the high and low prices for our common stock for each quarter from January 1, 2016 to December 31, 2017, as reported by NASDAQ.

	HIGH	LOW
FISCAL 2017		
Fourth Quarter (through December 31, 2017)	\$ 9.2	\$ 6.6
Third Quarter (through September 30, 2017)	\$ 5.75	\$ 3.55
Second Quarter (through June 30, 2017)	\$ 4.5	\$ 3.75
First Quarter (through March 31, 2017)	\$ 5.25	\$ 3.6
FISCAL 2016		
Fourth Quarter (through December 31, 2016)	\$ 6.5	\$ 3.4
Third Quarter (through September 30, 2016)	\$ 8.09	\$ 5.41
Second Quarter (through June 30, 2016)	\$ 8.24	\$ 6.11
First Quarter (through March 31, 2016)	\$ 10.9	\$ 6.1

Holder of Common Stock

As of March 8, 2018, there were 28 shareholders of record of our common stock. This does not include all beneficial holders who hold shares through their brokerage accounts.

Dividends

We have never paid cash dividends on our common stock. Our policy is to retain all earnings, if any, to provide funds for the operation and expansion of our business. We do not anticipate paying cash dividends in the foreseeable future.

Any future determination to declare cash dividends will be made at the discretion of our Board, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our Board may deem relevant.

Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Securities Authorized for Issuance under Equity Compensation Plans

Please see the discussion in Item 12 titled “Equity Compensation Plan Information” below.

Stock Performance Graph

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference into any filing of Kandi Technologies Group, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph shows a comparison from December 31, 2012, through December 31, 2017, of the cumulative total return for our common stock, the NASDAQ Composite Index, and the S&P Automobile Manufacturers Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NASDAQ Composite Index and the S&P Automobile Manufacturers Index assumes an investment of \$100 on December 31, 2012, and reinvestment of dividends. We have never paid cash dividends on our capital stock nor do we anticipate paying any such cash dividends in the foreseeable future.

Item 6. Selected Financial Data.

The following selected consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

As of December 31,

CONSOLIDATED BALANCE SHEETS DATA:	2017	2016	2015	2014	2013
Cash and cash equivalents	\$4,891,808	\$12,235,921	\$16,738,559	\$26,379,460	\$12,762,369
Restricted cash	11,218,688	12,957,377	16,172,009	13,000,731	1,636
Working capital (deficit)	53,707,902	86,348,025	67,464,090	39,202,684	(6,631,680)
Total assets	438,332,844	439,698,185	371,469,024	323,073,352	204,306,730
Short-term bank loans	33,042,864	34,265,065	36,656,553	35,589,502	34,020,281
Total liabilities	215,342,532	207,350,718	132,543,456	111,488,513	115,780,611
Total shareholders’ equity	222,990,312	232,347,467	238,925,568	211,584,839	88,526,119

Years Ended December 31,

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME DATA:	2017	2016	2015	2014	2013
REVENUES, NET	\$102,805,621	\$129,492,013	\$201,069,173	\$170,229,006	\$94,536,045
COST OF GOODS SOLD	(88,461,432)	(111,770,197)	(172,649,955)	(146,825,073)	(72,793,517)
GROSS PROFIT	14,344,189	17,721,816	28,419,218	23,403,933	21,742,528
Research and development	(27,628,085)	(26,504,650)	(3,482,511)	(2,755,637)	(3,728,730)
Selling and marketing	(1,465,007)	(1,567,707)	(633,863)	(1,345,588)	(399,504)
General and administrative	(11,333,336)	(20,665,709)	(28,255,267)	(14,058,548)	(16,056,107)
INCOME FROM OPERATIONS	(26,082,239)	(31,016,250)	(3,952,423)	5,244,160	1,558,187
Interest income	2,269,844	2,961,153	3,138,717	1,701,121	1,516,477
Interest (expense)	(2,280,286)	(1,831,667)	(2,214,635)	(3,480,646)	(4,395,353)
Change in fair value of financial instruments	-	3,823,590	8,519,295	6,531,308	(16,647,283)
Government grants	5,913,554	25,913,540	1,645,032	288,498	228,396
Share of (loss) in associated companies	-	-	-	(54,308)	(69,056)
Share of (loss)income after tax of JV	(11,555,302)	(7,307,510)	11,841,855	4,490,266	(2,414,354)
Other income, net	123,925	1,627,933	1,814,882	(34,649)	676,257
Total other (loss)income, net	(5,528,265)	25,187,039	24,745,146	9,441,590	(21,104,916)
(LOSS)INCOME BEFORE INCOME TAXES	(31,610,504)	(5,829,211)	20,792,723	14,685,750	(19,546,729)

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

INCOME TAX BENEFIT (EXPENSE)	3,263,030	(681,546)	(6,127,228)	(2,414,412)	(1,593,994)
NET (LOSS)INCOME	(28,347,474)	(6,510,757)	14,665,495	12,271,338	(21,140,723)
OTHER COMPREHENSIVE INCOME					
Foreign currency translation	13,846,110	(15,415,223)	(9,631,753)	(2,725,143)	2,112,902
COMPREHENSIVE (LOSS)INCOME	\$(14,501,364)	\$(21,925,980)	\$5,033,742	\$9,546,195	\$(19,027,821)
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	47,943,830	47,447,665	46,744,718	42,583,495	34,707,973
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	47,943,830	47,447,665	46,925,554	42,715,818	34,707,973
NET (LOSS)INCOME PER SHARE, BASIC	\$(0.59)	\$(0.14)	\$0.31	\$0.29	\$(0.61)
NET (LOSS)INCOME PER SHARE, DILUTED	\$(0.59)	\$(0.14)	\$0.31	\$0.29	\$(0.61)

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

Overview

We are one of the leading manufacturers of EV products (through the JV Company), EV parts and off-road vehicles in China. For the year ended December 31, 2017, we recognized total revenue of \$102,805,621 as compared to \$129,492,013 for the year ended December 31, 2016, a decrease of \$26,686,392, or 20.6%, primarily due to weak EV parts demand in the first half of 2017 from the JV Company and its subsidiaries because of the extended delays of subsidy payments for EVs manufactured in previous years and temporary working capital pressure on the JV Company to increase production. During the second half of 2017, we gradually resumed normal production and turned losses in the first six months to profits generated in the second six months. In 2017, we recorded \$14,344,189 of gross profit, a decrease of 19.1% from 2016, primarily due to the decrease of revenue. Gross margin for the year ended December 31, 2017 was 14.0%, an increase from 13.7% for the year ended December 31, 2016. We recorded a net loss of \$28,347,474 in 2017 compared to a net loss of \$6,510,757 in 2016, largely due to decreased revenue, gross profits and the JV Company's net losses.

During the fourth quarter of 2017, we continued our revenue growth momentum since the third quarter of this year and recognized total revenue of \$ 42,851,870 as compared to \$ 17,250,372 for the three months ended December 31, 2016, an increase of \$ 25,601,498 or 148.4%, primarily due to increased EV parts demand from the JV Company and its subsidiaries for their production needs. Gross profits for the three months ended December 31, 2017 was \$ 5,088,428, an increase of \$ 3,190,916 or 168.2%, from \$ 1,897,512 for the three months ended December 31, 2016. Gross margin for the three months ended December 31, 2017 was 11.9%, an increase from 11.0% for the three months ended December 31, 2016. We recorded a net income of \$5,445,902 in the fourth quarter of 2017 compared to a net loss of \$8,826,416 in the fourth quarter of 2016, largely due to increased revenue and gross profits in the fourth quarter of 2017.

Results of Operations

Comparison of Years Ended December 31, 2017, 2016 and 2015

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, 2017, 2016 and 2015:

Year Ended

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

	December 31, 2017	% of Revenue	December 31, 2016	% of Revenue	December 31, 2015	% of Revenue	Change in Amount 2017 VS 2016	Change in %
REVENUES FROM UNRELATED PARTY, NET	\$9,853,410	9.6 %	\$47,870,589	37.0 %	\$6,790,032	3.4 %	(38,017,179)	(79.9%)
REVENUES FROM JV COMPANY AND RELATED PARTY, NET	92,952,211	90.4 %	81,621,424	63.0 %	194,279,141	96.6 %	11,330,787	13.9%
REVENUES, NET	102,805,621	100.0 %	129,492,013	100.0 %	201,069,173	100.0 %	(26,686,392)	(20.3%)
COST OF GOODS SOLD	(88,461,432)	(86.0 %)	(111,770,197)	(86.3 %)	(172,649,955)	(85.9 %)	23,308,765	(20.2%)
GROSS PROFIT	14,344,189	14.0 %	17,721,816	13.7 %	28,419,218	14.1 %	(3,377,627)	(19.6%)
OPERATING EXPENSES:								
Research and development	(27,628,085)	(26.9 %)	(26,504,650)	(20.5 %)	(3,482,511)	(1.7 %)	(1,123,435)	4.2%
Selling and marketing	(1,465,007)	(1.4 %)	(1,567,707)	(1.2 %)	(633,863)	(0.3 %)	102,700	(6.6%)
General and administrative	(11,333,336)	(11.0 %)	(20,665,709)	(16.0 %)	(28,255,267)	(14.1 %)	9,332,373	(45.1%)
Total Operating Expenses	(40,426,428)	(39.3 %)	(48,738,066)	(37.6 %)	(32,371,641)	(16.1 %)	8,311,638	(17.4%)
LOSS FROM OPERATIONS	(26,082,239)	(25.4 %)	(31,016,250)	(24.0 %)	(3,952,423)	(2.0 %)	4,934,011	(15.1%)
OTHER INCOME(EXPENSE):								
Interest income	2,269,844	2.2 %	2,961,153	2.3 %	3,138,717	1.6 %	(691,309)	(23.3%)
Interest expense	(2,280,286)	(2.2 %)	(1,831,667)	(1.4 %)	(2,214,635)	(1.1 %)	(448,619)	24.5%
Change in fair value of financial instruments	-	0.0 %	3,823,590	3.0 %	8,519,295	4.2 %	(3,823,590)	(100.0%)
Government grants	5,913,554	5.8 %	25,913,540	20.0 %	1,645,032	0.8 %	(19,999,986)	(77.1%)
Share of (loss) income after tax of JV	(11,555,302)	(11.2 %)	(7,307,510)	(5.6 %)	11,841,855	5.9 %	(4,247,792)	58.1%
Other income, net	123,925	0.1 %	1,627,933	1.3 %	1,814,882	0.9 %	(1,504,008)	(92.8%)
Total other (expense) income, net	(5,528,265)	(5.4 %)	25,187,039	19.5 %	24,745,146	12.3 %	(30,715,304)	(121.3%)
(LOSS)INCOME BEFORE INCOME TAXES	(31,610,504)	(30.7 %)	(5,829,211)	(4.5 %)	20,792,723	10.3 %	(25,781,293)	442.1%
	3,263,030	3.2 %	(681,546)	(0.5 %)	(6,127,228)	(3.0 %)	3,944,576	(57.8%)

INCOME TAX
BENEFIT (EXPENSE)

NET (LOSS) INCOME (28,347,474) (27.6 %) (6,510,757) (5.0 %) **14,665,495** 7.3 % (21,836,717) 335.

Revenues

For the year ended December 31, 2017, we had net revenues of \$102,805,621 compared to net revenues of \$129,492,013 for the year ended December 31, 2016 and \$201,069,173 for the year ended December 31, 2015, representing a decrease of \$26,686,392, or 20.6%, from 2016 and a decrease of \$98,263,552, or 48.9%, from 2015, respectively. The decrease in revenue was primarily due to the decrease of sales volume due to the negative impact of industry-wide subsidy investigation in 2016 and subsidy reduction policies as well as decreased selling prices on average. Due to increasing competition in Chinese EV industries, the selling prices of our batteries for the year ended December 31, 2017 decreased from last year. Our products include EV parts, EV products, and off-road vehicles, including ATVs, utility vehicles (“UTVs”), go-karts, and others. For the year ended December 31, 2017, 2016 and 2015, 95%, 96% and 98%, respectively, of our revenues were derived from the sales of our products in China.

The following table summarizes our revenues by product type for the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,		
	2017	2016	2015
	Sales	Sales	Sales
EV parts	\$97,355,828	\$120,079,312	\$196,053,058
EV products	-	3,718,291	-
Off-road vehicles	5,449,793	5,694,410	5,016,115
Total	\$102,805,621	\$129,492,013	\$201,069,173

EV Parts

During the year ended December 31, 2017, our revenues from the sale of EV parts were \$97,355,828, representing a decrease of \$22,723,484 or 18.9% from \$120,079,312 for the year ended December 31, 2016 and a decrease of \$98,697,230 or 50.3% from \$196,053,058 for the year ended December 31, 2015, respectively.

Our revenue for the year ended December 31, 2017 primarily consisted of the sales of battery packs, body parts, EV drive motors, EV controllers, air conditioning units and other auto parts for use in the manufacturing of EV products, which accounted for 94.7% of total sales. Among total sales for the year ended December 31, 2017, approximately 74.8% were related to the sale of battery packs. In compliance with the regulation of the Chinese auto industry, we hold the necessary production licenses to manufacture the battery packs exclusively used in EV products manufactured by the JV Company. Besides the sale of battery packs, approximately 7.7% of total sales were related to sales of EV controllers, approximately 5.9% of the total sales were related to sales of air conditioning units, approximately 4.1% of total sales were related to sales of EV drive motors and approximately 2.2% of total sales were related to sales of body parts and other auto parts.

During the year ended December 31, 2017, our revenues from the sale of EV parts to the JV Company accounted approximately 90.4% of our total net revenue for the year. For the year ended December 31, 2017, the majority of EV parts we sold were sold to the JV Companies and its subsidiaries: approximately 89.0% of such sales were to the JV Company and approximately 1.3% of such sales were to Kandi Jiangsu. The EV parts we sold were used in manufacturing pure EV products by the JV Company's subsidiaries.

EV Products

Our revenue from the sale of EV products for the fiscal year 2017 was \$0, representing a decrease of \$3,718,291 or 100% from \$3,718,291 for the year ended December 31, 2016.

Pursuant to the JV Agreement, production of EV products was completely transferred to the JV Company at the end of 2014, but the Company may continue to sell those EV products that remain in stock. The Company completed sales of EV products in stock in 2016. The Company currently primarily focuses on EV parts manufacturing and supply for the JV Company for EVs production.

Off-Road Vehicles

During the year ended December 31, 2017, our revenues from the sale of off-road vehicles including go karts, all-terrain vehicles (“ATVs”), and others, were \$5,449,793, representing a decrease of \$244,617 or 4.3% from \$5,694,410 for the year ended December 31, 2016, and an increase of \$433,678 or 8.6% from \$5,016,115 for the year ended December 31, 2015.

Our off-road vehicles business line accounted for approximately 5.3% of our total net revenue for the fiscal year 2017, compared to 4.4% for the fiscal year 2016 and 2.5% for the fiscal year 2015. Of our off-road vehicle revenue, our go-kart business accounted for approximately 3.6% of our total net revenue for the year ended December 31, 2017, representing an increase from 2.8% and 1.6% for the years ended December 31, 2016 and 2015, respectively, and our ATV business accounted for approximately 1.6% of our total net revenue for the year ended December 31, 2017, representing an increase from 1.4% and 0.9% for the years ended December 31, 2016 and 2015, respectively. These percentage increases in 2017 were largely due to the decrease of the total revenue in 2017 as compared to that in 2016 and 2015.

The following table shows the breakdown of our net revenues from customers by geographic markets:

	Year Ended December 31, 2017		2016		2015	
	Sales Revenue	Percentage	Sales Revenue	Percentage	Sales Revenue	Percentage
Overseas	\$4,817,517	5 %	\$4,919,054	4 %	\$4,713,441	2 %
China	97,988,104	95 %	124,572,959	96 %	196,355,732	98 %
Total	\$102,805,621	100 %	\$129,492,013	100 %	\$201,069,173	100 %

Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2017 was \$88,461,432, representing a decrease of \$23,308,765, or 20.9%, from \$111,770,197 for the year ended December 31, 2016 and a decrease of \$84,188,523, or 48.8%, from \$172,649,955 for the year ended December 31, 2015. These decreases were primarily due to the corresponding decrease in sales resulting from weak demand for our EV parts by the JV Company in the first six months of 2017. Please refer to the below Gross Profit section for product margin analysis.

Gross Profit

Our margins by product for the past three years are as set forth below:

Years ended December 31, 2017				2016				2015			
Sales	Cost	Gross Profit	Margin %	Sales	Cost	Gross Profit	Margin %	Sales	Cost	Gross Profit	Margin %

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

EV parts	\$97,355,828	83,691,060	13,664,768	14.0%	\$120,079,312	102,856,683	17,222,629	14.3%	\$196,053,
EV products	-	-	-	-	3,718,291	3,632,762	85,529	2.3%	-
Off-road vehicles	5,449,793	4,770,372	679,421	12.5%	5,694,410	5,280,753	413,657	7.3%	5,016,11
Total	\$102,805,621	88,461,432	14,344,189	14.0%	\$129,492,013	111,770,197	17,721,816	13.7%	\$201,069,

Gross profit for the year ended December 31, 2017 was \$14,344,189, as compared to \$17,721,816 for the year ended December 31, 2016, and \$28,419,218 for year ended December 31, 2015, representing a decrease of \$3,377,627 or 19.1% from 2016 and a decrease of \$14,075,029 or 49.5% from 2015. These decreases were primarily attributable to the decrease in our corresponding revenue driven by weak demand for our EV parts in the first six months of 2017. Our gross margin for the year ended December 31, 2017, was 14.0%, compared to 13.7% for the year ended December 31, 2016, and 14.1% for the year ended December 31, 2015. The moderate increase in our gross margin as compared to that in 2016 was mainly due to the increased gross margin attributable to off-road vehicle business in the year 2017. We didn't have less profitable EV product business in 2017 also contributed the increase of gross margin on average in 2017.

Research and Development

Research and development expenses, including materials, labor, equipment depreciation, design, testing, inspection, and other related expenses totaled \$27,628,085 for the year ended December 31, 2017, compared to \$26,504,650 for the year ended December 31, 2016, and \$3,482,511 for the year ended December 31, 2015, representing an increase of \$1,123,435, or 4.2%, from 2016 and an increase of \$24,145,574, or 693.3%, from 2015. These increases were primarily due to significantly increased research and development expenses related to the development of a new EV model at Hainan facility in 2017 and 2016.

For the year ended December 31, 2017 and 2016, approximately 94.2% and 94.0% of our research and development expenses were spent on the research and development of a new EV product model at Hainan facility, and the rest was spent on other various EV and off-road vehicles research and development projects. For the year ended December 31, 2015, approximately 63% of our research and development expenses were spent on the research and development of new EV product models such as the K12/K17, in connection with a speed upgrade and the related control system, approximately 34% was spent on the improvement of batteries and their packing systems, and approximately 3% was spent on off-road vehicle development.

Sales and Marketing

Selling and distribution expenses were \$1,465,007 for the year ended December 31, 2017, compared to \$1,567,707 for the year ended December 31, 2016, and \$633,863 for the year ended December 31, 2015, representing a decrease of \$102,700, or 6.6%, from 2016 and an increase of \$831,144, or 131.1%, from 2015. Compared to 2016, the decrease was primarily attributable to the decreased shipping costs due to the decreased sales this period. Compared to 2015, the increase was primarily attributable to the amortization of product maintenance expenses for batteries during this period, which expenses will be amortized over the next eight years.

General and Administrative Expenses

General and administrative expenses were \$11,333,336 for the year ended December 31, 2017, compared to \$20,665,709 for the year ended December 31, 2016 and \$28,255,267 for the year ended December 31, 2015, representing a decrease of \$9,332,373 or 45.2%, from 2016 and a decrease of \$16,921,931, or 59.9%, from 2015. For the year ended December 31, 2017, general and administrative expenses included \$5,191,307 in expenses for common stock awards to employees and consultants for their services, compared to \$14,959,687 and \$22,379,220 for the years ended December 31, 2016 and 2015, respectively. Excluding stock award costs, our net general and administrative expenses for the year ended December 31, 2017 were \$6,142,029, an increase of \$436,007, or 7.6%, compared to \$5,706,022 for the year ended December 31, 2016, and an increase of \$265,982, or 4.5%, compared to \$5,876,047 for the year ended December 31, 2015. The increase was largely due to the losses accrued in connection with a litigation settlement payment made by the Company on behalf of ZSICL. According to the agreement, ZSICL agreed to reimburse the Company. The loss accrued will be reversed once the reimbursement is received. The Company expects the likelihood of incurring losses in connection with this matter to be low.

Interest Income

Interest income was \$2,269,844 for the year ended December 31, 2017, compared to \$2,961,153 for the year ended December 31, 2016, and \$3,138,717 for the year ended December 31, 2015, representing a decrease of \$691,309, or 23.3%, from 2016, and a decrease of \$868,873, or 27.7%, from 2015. The decrease as compared to 2016 and 2015 was primarily due to the reduced interest rate, which reduced to 4.35% in 2017 from 8.7% in 2016. In addition, we had interest income from a loan to a third party last year that did not continue into 2017.

Interest Expense

Interest expense was \$2,280,286 for the year ended December 31, 2017, compared to \$1,831,667 for the year ended December 31, 2016, and \$2,214,635 for the year ended December 31, 2015, representing an increase of \$448,619 from 2016 and an increase of \$65,651 from 2015. The increase as compared to 2016 and 2015 was primarily due to the additional interest expenses associated with a note payable to a third party. Of the interest expenses, \$135,766, \$18,694 and \$24,839, respectively, were the discounts associated with the settlement of bank acceptance notes for the years ended December 31, 2017, 2016 and 2015.

Change in Fair Value of Financial Instruments

For the year ended December 31, 2017, gain related to changes in the fair value of derivative liability relating to warrants issued to investors and placement agents was \$0, compared to \$3,823,590 for the year ended December 31, 2016, and \$8,519,295 for the year ended December 31, 2015, a decrease of \$3,823,590 from 2016 and a decrease of \$8,519,295 from 2015, respectively. The change in fair value of derivative liability is mainly the result of all remaining unexercised warrants expired as of December 31, 2017.

Government Grants

Government grants totaled \$5,913,554 for the year ended December 31, 2017, compared to \$25,913,540 for the year ended December 31, 2016, and \$1,645,032 for the year ended December 31, 2015, representing a decrease of \$19,999,986, or 77.2% from 2016 and an increase of \$4,268,522, or 259.5% from 2015. The decrease from 2016 and increase from 2015 were mainly due to subsidies we received from the Hainan provincial government to assist our development of a new EV model in 2017 and 2016. The total grant amount is RMB 300 million (approximately USD 45 million), of which the initial payment of RMB200 million (approximately USD30 million) was received and \$5,316,964 and \$24,844,149 was recognized as income in 2017 and 2016.

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

For the year ended December 31, 2017, the JV Company's net sales were \$192,748,328, gross profits were \$3,599,634, and net loss was \$22,699,965. We accounted for our investments in the JV Company under the equity method of accounting because we have a 50% ownership interest in the JV Company. As a result, we recorded 50% of the JV Company's loss, or \$11,349,983 for the year ended December 31, 2017. After eliminating intra-entity profits and losses, our share of the after-tax loss of the JV Company was \$11,555,302 for the year ended December 31, 2017, compared to loss of \$7,307,510 for 2016, representing an increasing loss of \$4,247,792, which was largely due to the decreased EV selling prices on average and increased manufacturing overhead for depreciation of the new production line.

During 2017, the JV Company's revenues were primarily derived from sales of EV products in China, the JV Company sold a total of 11,437 units of EV products in the PRC as compared to a total of 10,148 units sold in 2016, an increase of 12.7%, of which the JV Company sold 7,416 units of Model K12, 3,939 units of Model K17 and 82 units of other models in 2017.

Other Income (Expense), Net

Net other income was \$123,925 for the year ended December 31, 2017, compared to net other income of \$1,627,933 for the year ended December 31, 2016, and net other income of \$1,814,882 for the year ended December 31, 2015, a decrease in net other income of \$1,504,008 from 2016 and a decrease in net other income of \$1,690,957 from 2015. The higher other income in 2016 and 2015 as compared to 2017 was primarily due to the receipts of fees for providing technical services for EV technical development in both year 2016 and 2015.

Income Taxes

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

Each of our wholly-owned subsidiaries, Kandi New Energy, YongkangScrou and Kandi Hainan, has an applicable corporate income tax rate of 25%.

We have a 50% ownership interest in the JV Company, which has an applicable corporate income tax rate of 25%. Each of the JV Company's subsidiaries has an applicable corporate income tax rate of 25% as well.

Our actual effective income tax rate for 2017 was a tax benefit of 10.32% on a reported loss before taxes of \$31.3 million, compared to an effective income tax rate with a tax expense of -11.69% in 2016 on a reported loss before taxes of \$5.3 million. The change in effective tax rates was largely due to our income tax expense in 2016 as compared to income tax benefit in 2017.

Net Income (Loss)

We recorded net loss of \$28,347,474 for the year ended December 31, 2017, compared to net loss of \$6,510,757 for the year ended December 31, 2016, and net income of \$14,665,495 for the year ended December 31, 2015, an increase of net loss of \$21,836,717 from the year ended December 31, 2016 and a decrease of net income of \$43,012,969 from the year ended December 31, 2015. The decrease in net income was primarily attributable to decreased revenue and gross profits, R&D expenses of \$27.6 million to develop new EV model and related new product and the increased JV Company's net losses partially due to increased product R&D expenses of \$6.9 million, of which we recorded 50% of the JV Company's loss.

Excluding (i) the effects of stock award expenses, which were \$5,191,307, \$14,959,687 and \$22,379,220 for the years ended December 31, 2017, 2016 and 2015, respectively, and (ii) the change in the fair value of financial derivatives, which were gains of \$0, \$3,823,590 and \$8,519,295 for the years ended December 31, 2017, 2016 and 2015, respectively, our net loss (non-GAAP) was \$23,156,167 for the year ended December 31, 2017, as compared to net income (non-GAAP) of \$4,625,340 for the year ended December 31, 2016, a decrease income of \$27,781,507, and compared to net income (non-GAAP) of \$28,525,420 for the year ended December 31, 2015, a decrease income of \$51,681,587. The decrease in net income (non-GAAP) was primarily attributable to the decrease of revenue and gross profits, and JV Company's net losses.

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

The following table summarizes our non-GAAP net income for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
GAAP net (loss)income	\$(28,347,474)	\$(6,510,757)	\$14,665,495
Stock award expenses	5,191,307	14,959,687	22,379,220
Change of the fair value of financial derivatives	-	(3,823,590)	(8,519,295)
Non-GAAP net (loss)income	\$(23,156,167)	\$4,625,340	\$28,525,420

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the year ended December 31, 2017, cash used in operating activities was \$3,214,471, as compared to cash used in operating activities of \$49,526,543 for the year ended December 31, 2016, and cash used in operating activities of \$6,372,255 for the year ended December 31, 2015. The major operating activities that provided cash for the year ended December 31, 2017 were an increase in accounts payable of \$66,784,385 net of assignment of notes receivable from JV Company and related parties to suppliers to settle accounts payable of \$44,812,574 and settlement of accounts payable with notes payable of \$31,533,939 offset by an increase in accounts payable of \$3,756,605 to purchase construction in progress and a decrease in advances to supplier and prepayments and prepaid expenses of \$23,107,334. The major operating activity that used cash for the year ended December 31, 2017 was a net loss of \$28,347,474, and an increase in receivables from the JV Company of \$53,622,842 net of settlement of due from JV Company and related parties with notes receivable of \$53,565,297. The increase in the receivable from the JV Company was largely due to the JV Company's delay in collection of its accounts receivable from its business partners resulting in their temporary difficulties to repay the amount owed to us on time.

Cash derived from investing activities for the year ended December 31, 2017 was \$2,708,638, as compared to cash derived in investing activities of \$966,627 and cash used for investing activities of \$4,312,479 for the years ended December 31, 2016 and 2015, respectively. Cash derived from investing activities for the year ended December 31, 2017 was primarily the result of withdraw of short term investment of \$4,587,971. Cash used for investing activities for the year ended December 31, 2017 was primarily the result of purchase of property, plant and equipment, net of \$760,253 and purchase of construction in progress of \$702,719.

Cash used from financing activities for the year ended December 31, 2017 was \$7,298,060, as compared to cash derived from financing activities of \$44,827,611 and cash used for financing activities of \$961,523 for the years ended December 31, 2016 and 2015, respectively. Cash derived from financing activities for the year ended December 31, 2017 was primarily the result of proceeds from short-term loans of \$32,263,794 and proceeds from notes payable of \$22,270,028. Cash used in financing activities for the year ended December 31, 2017 was primarily the result of repayments of short-term loans of \$35,667,772 and repayment of notes payable of \$28,680,591.

As of December 31, 2017, we had unrestricted cash of \$4,891,808. Our total current assets were \$238,312,887, and our total current liabilities were \$184,604,985, resulting in a net working capital of \$53,707,902.

Working Capital

We had a working capital surplus of \$53,707,902 at December 31, 2017, which reflected a decrease of \$32,640,123 from a working capital surplus of \$86,348,025 as of December 31, 2016.

We have historically financed our operations through short-term commercial bank loans from Chinese 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. We believe this practice has been ongoing year after year and that short-term bank loans will be available with normal trade terms if needed.

Capital Requirements and Capital Provided

Capital requirements and capital provided for the year ended December 31, 2017 were as follows:

	Year Ended December 31, 2017 (In Thousands)
Capital requirements	
Purchase of plant and equipment	\$ 760
Purchase of land use rights	416
Purchase of construction in progress	703
Repayments of short-term bank loans	35,668
Repayments of notes payable	28,681
Internal cash used in operations	3,214
Total capital Requirements	\$ 69,442
Capital provided	
Proceeds from short-term bank loan	32,264
Proceeds from notes payable	22,270
Repayments of short term investment	4,588
Decrease in cash	7,344
Decrease in restricted cash	2,516
Total capital provided	\$ 68,982

The difference between capital provided and capital required was mainly the result of exchange rate changes over the past twelve months.

Contractual Obligations and Off-balance Sheet Arrangements

Contractual Obligations

The following table summarizes our contractual obligations:

Contractual obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
R&D Obligations	\$9,221,264	9,221,264	-	-	-
Hainan Obligations	16,598,276	16,598,276	-	-	-
Loans from Haikou Rural Credit Cooperative	\$30,737,547	-	-	30,737,547	-
Total	\$56,557,087	25,819,540	-	30,737,547	-

To build the Hainan facility, the Company signed contracts with Nanjing Shangtong Auto Technologies Co., Ltd. (“Nanjing Shangtong”) to purchase a production line and develop a new EV model. As of December 31, 2017, the total revised contractual amount with Nanjing Shangtong was RMB 912,000,000 or approximately \$140 million, of which RMB 744,000,000 or approximately \$114 million has been paid and RMB168,000,000 or approximately \$26 million of remaining payments are outstanding as contractual obligations.

Short-term and long-term Loans:

For the discussion of guarantees for bank loans, please refer to Note 16 - Short-term and long-term Loans under Item 8 Notes to Consolidated Financial Statements.

Notes payable:

For the discussion of guarantees for bank loans, please refer to Note 17 - Notes payable under Item 8 Notes to Consolidated Financial Statements.

Guarantees and pledged collateral for third party bank loan

For the discussion of guarantees for bank loans, please refer to Note 23 - COMMITMENTS AND CONTINGENCIES under Item 8 Notes to Consolidated Financial Statements.

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 our accounts receivable and inventories.

Accounts receivable are recognized and carried at net realizable value. An allowance for doubtful accounts is recorded in the period when a loss is probable based on an assessment of specific factors, such as troubled collection, historical experience, accounts aging, ongoing business relations and other factors. Accounts are written off after exhaustive efforts at collection. If accounts receivable are to be provided for, or written off, they would be recognized in the consolidated statement of operations within operating expenses. We had an allowance for doubtful accounts of \$133,930 and \$0 for the years ended December 31, 2017 and 2016, 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 \$620,919 and \$415,797 of decline in net realizable value of inventory for the year ended of December 31, 2017 and 2016, respectively, due to our provision for slow moving inventory.

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

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.

Our revenue recognition policies for our EV products, EV parts and legacy products, including ATVs, go-karts and other products are the same: When the products are delivered, the associated risk of loss is deemed transferred, and at that time we recognize revenue.

Policy affecting options, warrants and convertible notes

Our stock option cost is recorded in accordance with ASC 718 and ASC 505. The fair value of stock options is estimated using the Black-Scholes -Merton model. Our expected volatility assumption is based on the historical volatility of our stock. The expected life assumption is primarily based on the expiration date of the option. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Stock option expense recognition is based on awards expected to vest. There were no estimated forfeitures. ASC standards require forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

Our warrant costs are recorded in liabilities and equities, respectively, in accordance with ASC 480, ASC 505 and ASC 815. The fair value of a warrant, which is classified as a liability, is estimated using the Binomial Tree model and the lattice valuation model. Our expected volatility assumption is based on the historical volatility of our common stock. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the warrant is based on the U.S. Treasury yield curve in effect at the time of measurement. Our warrants, which are freestanding derivatives classified as liabilities on the balance sheet, are measured at fair value on each reporting date, with decreases in fair value recognized in earnings and increases in fair values recognized in expenses.

The fair value of equity-based warrants, which are not considered derivatives under ASC 815, is estimated using the Black-Scholes -Merton model. Our expected volatility assumption is based on the historical volatility of our common stock. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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. We used the Black-Scholes -Merton option-pricing model to obtain the fair value of the conversion feature. The expected volatility assumption is based on the historical volatility of our common stock. The expected life assumption is primarily based on the expiration date of the 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. The 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 price negotiations for our products. 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 reliability of our products, we have been able to maintain this warranty policy and we have not had any product liability attributed to our products.

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

U.S. Corporate Income Tax

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (“Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code that will affect our fiscal year ended 12/31/2017 and going-forward, including, but not limited to, (1) reducing the U.S. federal corporate tax rate effective January 1, 2018, (2) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years.

The SEC staff issued Staff Accounting Bulletin (“SAB”) No. 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

For various reasons that are discussed more fully below, we have not fully completed our accounting for the income tax effects of certain elements of the Tax Act. If we were able to make reasonable estimates of the effects of elements for which our analysis is not yet complete, we recorded provisional adjustments. If we were not yet able to make reasonable estimates of the impact of certain elements, we have not recorded any adjustments related to those elements and have continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before the Tax Act.

Our accounting for the following elements of the Tax Act is incomplete. However, we were able to make reasonable estimates of certain effects and, therefore, recorded provisional adjustments as follows:

Reduction of U.S. Federal Corporate Tax Rate: The Tax Act reduces the corporate tax rate to 21.0%, effective January 1, 2018. For certain deferred tax assets and deferred tax liabilities, we have recorded a provisional decrease of \$0.3 million, respectively, with a corresponding net adjustment to valuation allowance of \$0.3 million for the year ended December 31, 2017. While we are able to make a reasonable estimate of the impact of the reduction in corporate rate, it may be affected by other analyses related to the Tax Act, including, but not limited to, our calculation of deemed repatriation of deferred foreign income and the state tax effect of adjustments made to federal temporary differences.

Deemed Repatriation Transition Tax: The Deemed Repatriation Transition Tax (“Transition Tax”) is a tax on previously untaxed accumulated and current earnings and profits (“E&P”) of certain foreign subsidiaries. To determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. Due to the timing of the enactment and the complexity involved in applying the provisions of the Act, we could not make reasonable estimates of the effects and did not record provisional amounts in our financial statements as of December 31, 2017. However, we are continuing to gather information to precisely compute the amount of the Transition Tax.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Rate Risk

While our reporting currency is the U.S. dollar, to date the majority of our revenues and costs are denominated in RMB and a significant portion of our assets and liabilities are denominated in RMB. As a result, we are exposed to foreign exchange risk because our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollar and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues and assets as expressed in our U.S. dollar financial statements will decline. Since 2005, China reformed its exchange rate regime and the RMB is no longer pegged to the U.S. dollar. In 2010, the People’s Bank of China decided to move to further reform the RMB exchange rate regime to enhance the flexibility of the RMB exchange rate. Starting August 11, 2015, the RMB changed its trend of appreciation and began to depreciate as compared to the U.S. dollar. As of December 31, 2017, the RMB exchange rate vs. the U.S. dollar was 6.5067, representing about 6.3% appreciation compared to the exchange rate of 6.94585 vs. the U.S. dollar as of December 31, 2016. In the long term, the RMB may appreciate or depreciate more significantly in value against the U.S. dollar or other foreign currencies, depending on the market supply and demand with reference to a basket of currencies.

While the Chinese RMB is freely convertible under the current account, it remains strictly regulated in the capital account. Chinese authorities have expressed their willingness to allow the RMB to be fully convertible in the near future.

To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure. Accordingly, we may incur economic losses in the future due to foreign exchange rate fluctuations, which could have a negative impact on our financial condition and results of operations.

Interest Rate Risk

We had cash, cash equivalents and restricted cash totaling \$16.1 million and notes receivable from JV Company and related party of \$1.1 million as of December 31, 2017. Cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. As of December 31, 2017, we had \$33.0 million of short-term bank loans outstanding, which are fixed rate instruments. Our exposure to interest rate risk primarily relates to the interest income generated from cash held in bank deposits and notes receivable, and interest expense generated from short-term bank loans. We believe that we do not have any material exposure to changes in fair value as a result of changes in interest rates due to the short-term nature of our cash equivalents. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates.

Economic and Political Risks

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

Item 8. Financial Statements and Supplementary Data.

KANDI TECHNOLOGIES GROUP, INC.

AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2017 AND 2016

KANDI TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES

CONTENTS

<u>REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	F-2
<u>CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2017 AND 2016</u>	F-4
<u>CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015</u>	F-5
<u>CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015</u>	F-6
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015</u>	F-7
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015</u>	F-8

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Kandi Technologies Group, Inc.

Opinions on the Financial Statements

We have audited the accompanying consolidated balance sheets of Kandi Technologies Group, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 16, 2018 expressed an adverse opinion thereon.

Basis for Opinions

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO China Shu Lun Pan Certified Public Accountants LLP

BDO China Shu Lun Pan Certified Public Accountants LLP

Shanghai, The People's Republic of China

March 16, 2018

We have served as the Company's auditor since 2016.

F-2

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Kandi Technologies Group, Inc.

Opinions on the Internal Control over Financial Reporting

We have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated March 16, 2018 expressed an unqualified opinion thereon.

Basis for Opinions

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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 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. Certain control deficiencies existed in the internal control over financial reporting as of December 31, 2017, including lack of adequate knowledge of US GAAP and SEC rules; inaccurate accounting for income taxes. These material weaknesses existed as of 12/31/2015 and had not yet been fully remediated as of 12/31/2017. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2017 financial statements.

Definition and Limitations of Internal Control over Financial Reporting

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ BDO China Shu Lun Pan Certified Public Accountants LLP

BDO China Shu Lun Pan Certified Public Accountants LLP

Shanghai, The People's Republic of China

March 16, 2018

F-3

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

	December 31, 2017	December 31, 2016
Current assets		
Cash and cash equivalents	\$4,891,808	\$12,235,921
Restricted cash	11,218,688	12,957,377
Short term investment	-	4,463,097
Accounts receivable (net of allowance for doubtful accounts of \$133,930 and \$0 as of December 31, 2017 and December 31, 2016, respectively)	34,397,858	32,394,613
Inventories (net of provision for slow moving inventory of \$620,919 and \$415,797 as of December 31, 2017 and December 31, 2016, respectively)	15,979,794	11,914,110
Notes receivable from JV Company and related party	1,137,289	400,239
Other receivables	2,650,668	66,064
Prepayments and prepaid expense	6,536,839	4,317,855
Due from employees	7,070	4,863
Advances to suppliers	14,908,385	38,250,818
Amount due from JV Company, net	146,422,440	136,536,159
Amount due from related party	162,048	10,484,816
TOTAL CURRENT ASSETS	238,312,887	264,025,932
 LONG-TERM ASSETS		
Property, Plant and equipment, net	12,000,971	15,194,442
Land use rights, net	12,666,047	11,775,720
Construction in progress	53,083,925	27,054,181
Deferred taxes assets	4,383,425	-
Long Term Investment	1,460,034	1,367,723
Investment in JV Company	70,681,013	77,453,014
Goodwill	322,591	322,591
Intangible assets	331,116	413,211
Advances to suppliers	21,592,918	33,819,419
Other long-term assets	7,590,734	8,271,952
Amount due from JV Company, net	15,907,183	-
TOTAL Long-Term Assets	200,019,957	175,672,253
 TOTAL ASSETS	 \$438,332,844	 \$439,698,185
 CURRENT LIABILITIES		
Accounts payables	\$111,595,540	\$115,870,051
Other payables and accrued expenses	6,556,209	4,835,952
Short-term loans	33,042,864	34,265,065
Customer deposits	205,544	41,671

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

Notes payable	28,075,945	14,797,325
Income tax payable	2,902,699	1,364,235
Due to employees	35,041	21,214
Deferred taxes liabilities	-	118,643
Deferred income	2,191,143	6,363,751
Total Current Liabilities	184,604,985	177,677,907
LONG-TERM LIABILITIES		
Long term bank loans	30,737,547	28,794,172
Deferred taxes liabilities	-	878,639
Total Long-Term Liabilities	30,737,547	29,672,811
TOTAL LIABILITIES	215,342,532	207,350,718
STOCKHOLDER'S EQUITY		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 48,036,538 and 47,699,638 shares issued and outstanding at December 31,2017 and December 31,2016, respectively	48,037	47,700
Additional paid-in capital	233,055,348	227,911,477
Retained earnings (the restricted portion is \$4,422,033 and \$4,219,808 at December 31,2017 and December 31, 2016, respectively)	(3,802,310)	24,545,163
Accumulated other comprehensive loss	(6,310,763)	(20,156,873)
TOTAL STOCKHOLDERS' EQUITY	222,990,312	232,347,467
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 438,332,844	\$ 439,698,185

See notes to consolidated financial statements.

KANDI TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)****FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

	Year Ended		
	December 31, 2017	December 31, 2016	December 31, 2015
REVENUES FROM UNRELATED PARTY, NET	\$9,853,410	\$47,870,589	\$6,790,032
REVENUES FROM JV COMPANY AND RELATED PARTY, NET	92,952,211	81,621,424	194,279,141
REVENUES, NET	102,805,621	129,492,013	201,069,173
COST OF GOODS SOLD	(88,461,432)	(111,770,197)	(172,649,955)
GROSS PROFIT	14,344,189	17,721,816	28,419,218
OPERATING EXPENSES:			
Research and development	(27,628,085)	(26,504,650)	(3,482,511)
Selling and marketing	(1,465,007)	(1,567,707)	(633,863)
General and administrative	(11,333,336)	(20,665,709)	(28,255,267)
Total Operating Expenses	(40,426,428)	(48,738,066)	(32,371,641)
LOSS FROM OPERATIONS	(26,082,239)	(31,016,250)	(3,952,423)
OTHER INCOME (EXPENSE):			
Interest income	2,269,844	2,961,153	3,138,717
Interest expense	(2,280,286)	(1,831,667)	(2,214,635)
Change in fair value of financial instruments	-	3,823,590	8,519,295
Government grants	5,913,554	25,913,540	1,645,032
Share of (loss) income after tax of JV	(11,555,302)	(7,307,510)	11,841,855
Other income, net	123,925	1,627,933	1,814,882
Total other (expense) income, net	(5,528,265)	25,187,039	24,745,146
(LOSS) INCOME BEFORE INCOME TAXES	(31,610,504)	(5,829,211)	20,792,723
INCOME TAX BENEFIT (EXPENSE)	3,263,030	(681,546)	(6,127,228)
NET(LOSS) INCOME	(28,347,474)	(6,510,757)	14,665,495
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation	13,846,110	(15,415,223)	(9,631,753)

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

COMPREHENSIVE (LOSS) INCOME	\$ (14,501,364)	\$ (21,925,980)	\$ 5,033,742
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	47,943,830	47,447,665	46,744,718
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	47,943,830	47,447,665	46,925,554
NET (LOSS) INCOME PER SHARE, BASIC	\$ (0.59)	\$ (0.14)	\$ 0.31
NET (LOSS) INCOME PER SHARE, DILUTED	\$ (0.59)	\$ (0.14)	\$ 0.31

See notes to consolidated financial statements.

F-5

KANDI TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Capital	Earnings	Income	Total
BALANCE AT DECEMBER 31, 2014	46,274,855	\$46,275	\$190,258,037	\$16,390,424	\$4,890,103	\$211,584,839
Stock issuance and award	690,000	690	22,306,297	-	-	22,306,987
Warrant exercise	-	-	-	-	-	-
Deferred tax effect	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	(9,631,753)	(9,631,753)
Net income	-	-	-	14,665,495	-	14,665,495
BALANCE AT DECEMBER 31, 2015	46,964,855	\$46,965	\$212,564,334	\$31,055,919	\$(4,741,650)	\$238,925,568
Stock issuance and award	734,783	735	15,347,143			15,347,878
Warrant exercise						-
Deferred tax effect						-
Foreign currency translation					(15,415,223)	(15,415,223)
Net loss				(6,510,756)		(6,510,756)
BALANCE AT DECEMBER 31, 2016	47,699,638	\$47,700	\$227,911,477	\$24,545,163	\$(20,156,873)	\$232,347,467
Stock issuance and award	336,900	337	5,143,871			5,144,208
Warrant exercise						-
Deferred tax effect						-
Foreign currency translation					13,846,110	13,846,110
Net loss				(28,347,473)		(28,347,473)
BALANCE AT DECEMBER 31, 2017	48,036,538	\$48,037	\$233,055,348	\$(3,802,310)	\$(6,310,763)	\$222,990,312

See notes to consolidated financial statements.

KANDI TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOW****FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

	Year Ended		
	December 31, 2017	December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	\$(28,347,474)	\$(6,510,757)	\$14,665,495
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	4,777,992	4,863,277	5,788,780
Assets Impairments	170,506	(40,142)	194,366
Allowance for doubtful accounts	128,972	-	-
Deferred taxes	(5,448,015)	3,651,362	1,446,345
Change in fair value of financial instruments	-	(3,823,590)	(8,519,295)
Share of loss after tax of JV Company	11,555,302	7,307,510	(11,841,855)
Reserve for fixed assets	451,503	-	-
Stock Compensation cost	5,191,307	14,913,212	22,306,987
Changes in operating assets and liabilities, net of effects of acquisition:			
(Increase) Decrease In:			
Accounts receivable	(5,821,522)	(40,962,889)	(16,240,270)
Notes receivable	-	1,383,605	1,708,223
Notes receivable from JV Company and related party	8,068,968	-	-
Inventories	(3,311,357)	4,952,792	(3,497,460)
Other receivables and other assets	(1,243,552)	(43,650,395)	(193,954)
Due from employee	10,127	41,529	(7,596)
Advances to supplier and Prepayments and prepaid expenses	23,107,334	(9,209,955)	6,664,779
Advances to suppliers-Long term	(5,941,692)	-	-
Amount due from JV Company	(53,622,842)	(111,996,250)	(127,667,063)
Amount due from JV Company-Long term	(15,907,183)	-	-
Due from related party	10,622,123	28,715,113	(42,249,905)
Increase (Decrease) In:			
Accounts payable	66,784,385	112,150,789	164,704,112
Other payables and accrued liabilities	1,914,293	(3,790,859)	5,300,095
Notes payable	(13,297,993)	(8,480,858)	(15,398,471)
Customer deposits	155,100	(48,312)	(2,496,382)
Income Tax payable	1,221,012	1,008,274	(1,039,187)
Deferred income	(4,431,765)	-	-

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

Net cash used in operating activities	\$ (3,214,471)	\$ (49,526,543)	\$ (6,372,256)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment, net	(760,253)	(275,801)	(827,059)
(Purchases)/Disposal of land use rights and other intangible assets	(416,361)	(3,388)	1,589,165
(Purchases)/Disposal of construction in progress	(702,719)	(6,001,664)	1,128,443
Issuance of notes receivable	-	-	(9,411,720)
Repayment of notes receivable	-	10,335,807	6,410,154
Long Term Investment	-	-	(1,522,411)
Short Term Investment	4,587,971	(3,088,327)	(1,679,051)
Net cash provided by (used in) investing activities	\$ 2,708,638	\$ 966,627	\$ (4,312,479)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Restricted cash	2,516,481	2,257,268	(4,006,346)
Proceeds from short-term bank loans	32,263,794	65,912,237	50,640,214
Repayments of short-term bank loans	(35,667,772)	(35,815,325)	(47,595,391)
Proceeds from notes payable	22,270,028	12,038,765	-
Repayment of notes payable	(28,680,591)	-	-
Warrant exercise	-	434,666	-
Net cash (used in) provided by financing activities	\$ (7,298,060)	\$ 44,827,611	\$ (961,523)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,803,893)	(3,732,305)	(11,646,257)
Effect of exchange rate changes on cash	459,780	(770,333)	2,005,356
Cash and cash equivalents at beginning of year	12,235,921	16,738,559	26,379,460
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,891,808	12,235,921	16,738,559
SUPPLEMENTARY CASH FLOW INFORMATION			
Income taxes paid	1,448,523	2,598,846	2,496,654
Interest paid	1,625,240	1,671,372	2,188,223
SUPPLEMENTAL NON-CASH DISCLOSURES:			
Construction in progress transferred back to prepayments	-	35,035,762	-
Advances to suppliers-long term transferred to Construction in progress	18,848,586	-	-
Purchase of construction in progress by accounts payable	3,756,605	4,191,246	-
Advances to suppliers-long term adjusted for other payable	1,065,100	-	-
Settlement of due from JV Company and related parties with notes receivable	53,565,297	43,707,157	99,147,703
Settlement of accounts receivables with notes receivable from unrelated parties	5,868,902	15,052,339	23,292,896
Assignment of notes receivable from unrelated parties to supplier to settle accounts payable	5,868,902	14,509,390	22,748,033
Assignment of notes receivable from JV Company and related parties to supplier to settle accounts payable	44,812,574	44,846,561	96,359,704
Settlement of accounts payable with notes payables	31,533,939	8,146,783	13,781,830
Deferred tax change to other comprehensive income	78,967	-	-

See notes to consolidated financial statements.

F-7

KANDI TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES

NOTES TO 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, and 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 Jinhua City, Zhejiang Province, People’s Republic of China, the Company is one of the People’s Republic of China’s (“China”) leading producers and manufacturers of electric vehicle (“EV”) products, EV parts, and off-road vehicles for sale in China and global markets. The Company conducts its primary business operations through its wholly-owned subsidiary, Zhejiang Kandi Vehicles Co., Ltd. (“Kandi Vehicles”), and the partially and wholly-owned subsidiaries of Kandi Vehicles.

The Company’s organizational chart as of March 8, 2018 is as follows:

Operating Subsidiaries:

Pursuant to agreements executed in January 2011, Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests (100% of profits and losses) of JinhuaKandi New Energy Vehicles Co., Ltd. (“Kandi New Energy”). Kandi New Energy currently holds battery pack production licensing rights and supplies battery packs to the JV Company (as such term is defined below). In April 2012, pursuant to a share exchange agreement, the Company acquired 100% of YongkangScrou Electric Co, Ltd. (“YongkangScrou”), a manufacturer of automobile and EV parts. YongkangScrou currently manufactures and sells EV drive motors, EV controllers, air conditioners and other electric products to the JV Company.

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 and all products are manufactured by its subsidiaries. In an effort to improve the JV Company’s development, Zhejiang Geely Holding Group, the parent company of Geely, became the JV Company’s -shareholder on October 26, 2016, through its purchase of the 50% equity of the JV Company held by Shanghai Guorun at a premium price (a price exceeding the cash amount of the aggregate of the original investment and the shared profits over the years). On May 19, 2017, due to business development, Geely Holding entrusted Hu Xiaoming, Chairman of the Board of the JV Company, to hold 19% equity of the JV Company from its 50% holding of the JV Company on behalf of Geely Holding as a nominal holder. On the same day, Geely Holding transferred its remaining 31% equity in the JV Company to Geely Group (Ningbo) Ltd., a company wholly owned by Li Shufu, Chairman of the Board of Geely Holding. On May 25, 2017, Mr. Hu pledged his 19% equity in the JV Company held on behalf of Geely Holding to Geely Holding. On June 30, 2017, due to the JV Company’s operational needs, Kandi Vehicles pledged its 50% equity in the JV Company to Geely Holding as counter-guarantee, because Geely Holding provides a 100% guarantee on the JV Company’s borrowings. Notwithstanding the pledge, guarantee and counter-guarantee arrangements stated above, there has been no change in control with respect to the 50% ownership held by each shareholder of the JV Company. In order to streamline the equity structure, on October 24, 2017, Mr. Hu transferred the 19% equity of the JV Company to Geely Group (Ningbo) Ltd. Now, Kandi Vehicles and Geely Group (Ningbo) Ltd. each owns 50% of equity of 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 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 a 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, generally referred to as the Micro Public Transportation (“MPT”) program. The Company, through Kandi Vehicle, has a 9.5% ownership interest in the Service Company.

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

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

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

In January 2014, Kandi Electric Vehicles Jiangsu Co., Ltd. (“Kandi Jiangsu”) was formed by the JV Company. The JV Company has a 100% ownership interest in Kandi Jiangsu, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jiangsu. Kandi Jiangsu 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. Puma Investment provides investment and consulting services. The JV Company has a 50% ownership interest in Puma Investment (the other 50% is owned by Zuozhongyou Electric Vehicles Service (Hangzhou) Co., Ltd., a subsidiary of the Service Company), and the Company, indirectly through the JV Company, has a 25% economic interest in Puma Investment. In addition, Kandi Vehicle has a 9.5% ownership interest in Zuozhongyou Electric Vehicles Service (Hangzhou) Co., Ltd. The Company, indirectly through its 100% ownership interest in Kandi Vehicle, also has a 4.75% economic interest in Puma Investment. Therefore, the Company has a total of 29.75% of economic interest in Puma Investment.

In November 2015, Hangzhou JiHeKang Electric Vehicle Service Co., Ltd. (the “JiHeKang Service Company”) was formed by the JV Company. The JiHeKang Service Company focuses on after-market services for EV products. The

JV Company has a 100% ownership interest in the JiHeKang Service Company, and the Company, indirectly through the JV Company, has a 50% economic interest in the JiHeKang Service Company.

F-10

In December 2015, Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. Tianjin Branch (“JiHeKang Tianjin”) was formed by JiHeKang. JiHeKang Tianjin is engaged in the car sales business. Since JiHeKang Tianjin is 100% owned by the JV Company, the JV Company has a 100% ownership interest in JiHeKang Tianjin, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in JiHeKang Tianjin.

In January 2016, Kandi Electric Vehicles (Wanning) Co., Ltd. was renamed Kandi Electric Vehicles (Hainan) Co., Ltd. (“Kandi Hainan”). Kandi Hainan was originally formed in Wanning City in Hainan Province by Kandi Vehicles and Kandi New Energy in April 2013, and was transferred to Haikou City in January 2016. Kandi Vehicles has a 90% ownership interest in Kandi Hainan, and Kandi New Energy has the remaining 10% ownership interest. In fact, Kandi Vehicles is, effectively, entitled to 100% of the economic benefits, voting rights and residual interests (100% of the profits and losses) of Kandi Hainan as Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests of Kandi New Energy.

In August 2016, Jiangsu JiDian Electric Vehicle Sales Co., Ltd. (“Jiangsu JiDian”) was formed by JiHeKang. Jiangsu JiDian is engaged in the car sales business. Since JiHeKang is 100% owned by the JV Company, the JV Company has a 100% ownership interest in Jiangsu JiDian, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Jiangsu JiDian.

In October 2016, JiHeKang acquired Tianjin BoHaiWan Vehicle Sales Co., Ltd. (“Tianjin BoHaiWan”), which is engaged in the car sales business. Since JiHeKang is 100% owned by the JV Company, the JV Company has a 100% ownership interest in Tianjin BoHaiWan, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Tianjin BoHaiWan.

In November 2016, Changxing Kandi Vehicle Maintenance Co., Ltd. (“Changxing Maintenance”) was formed by Kandi Changxing. Changxing Maintenance is engaged in the car repair and maintenance business. In December 2017, the Service Company entered an agreement with the JV Company to acquire 100% of Changxing Maintenance for RMB 1,089,887 or approximately \$167,501. As of December 31, 2017, the transaction had not been closed. Since Kandi Changxing is 100% owned by the JV Company, the JV Company has a 100% ownership interest in Changxing Maintenance, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Changxing Maintenance.

In November 2016, Guangdong JiHeKang Electric Vehicle Sales Co., Ltd. (“Guangdong JiHeKang”) was formed by JiHeKang. Guangdong JiHeKang is engaged in the car sales business. Since JiHeKang is 100% owned by the JV Company, the JV Company has a 100% ownership interest in Guangdong JiHeKang, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Guangdong JiHeKang.

In March 2017, Hangzhou Liuchuang Electric Vehicle Technology Co., Ltd. (“Liuchuang”) was formed by Kandi Jiangsu. Since Kandi Jiangsu is 100% owned by the JV Company, the JV Company has a 100% ownership interest in Liuchuang, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Liuchuang.

In April 2017, in order to promote business development, Kandi Jinhua, JiHeKang, and the JiHeKang Service Company were reorganized to become subsidiaries of Kandi Jiangsu. As the JV Company has a 100% ownership interest in Kandi Jiangsu, the JV Company has 100% ownership interests in Kandi Jinhua, JiHeKang, and the JiHeKang Service Company, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jinhua, JiHeKang, and the JiHeKang Service Company.

The Company’s primary business operations are designing, developing, manufacturing and commercializing EV products, EV parts and off-road vehicles. As part of its strategic objective of becoming a leading manufacturer of EV products (through the JV Company) 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 \$53,707,902 as of December 31, 2017, a decrease of \$32,640,123 from a working capital surplus of \$86,348,025 as of December 31, 2016.

As of December 31, 2017, the Company had credit lines available from commercial banks of \$33,042,864. Although the Company expects that most of the Company’s outstanding trade receivables from its customers will be collected in the next twelve months, there are uncertainties about the timing in collecting these receivables, especially the receivables due from the JV Company, because most of them are indirectly impacted by the timely receipt of government subsidies. Since the amount due from the JV Company accounts for the majority of the Company’s outstanding receivables, and since the Company cannot control the timing of the receipt of government subsidies, the Company believes that its internally-generated cash flows may not be sufficient to support the growth of future operations and to repay short-term bank loans for the next twelve months. However, the Company believes its access to existing financing sources and its good credit will enable it to meet its obligations and fund its ongoing operations for the next 12 months. The Company expects to approximately maintain the current debt level for the next twelve months given the Company’s current financial position and business development needs.

The Company’s primary need for liquidity is to fund working capital requirements of the Company’s businesses, capital expenditures and for general operational purposes, including debt repayment. The Company has incurred losses and

experienced negative operating cash flows for the past years, and accordingly, the Company has taken a number of actions to continue to support its operations and meet its obligations. The Company has historically financed its operations through short-term commercial bank loans from Chinese banks. The term of these loans is typically for one year, and upon the payment of all outstanding principal and interest on a particular loan, the banks have typically rolled over the loan for an additional one-year term, with adjustments made to the interest rate to reflect prevailing market rates. This practice has been ongoing year after year and the Company believes that short-term bank loans will remain available on normal trade terms if needed. As the misunderstanding surrounding the exchange battery model of the JV Company has been gradually cleared up and the financial institutions' confidence to Kandi has been restored, the relevant Chinese banks are expected to further increase the credit to the company. During the second half of 2017, the Company gradually resumed normal production and turned losses in the first six months in 2017 to profits generated in the second six months in 2017. During the fourth quarter of 2017, the Company continued its revenue growth momentum since the third quarter of this year and was profitable in the fourth quarter of 2017. In 2018, the management will take measures to grow the business and further improve the Company's liquidity. The Company acknowledges that the Company continues to face a challenging competitive environment and expect that the actions taken will enhance the Company's liquidity and financial flexibility to support the Company's operation needs.

We finance our ongoing operating activities by using funds from our operations and external credit or financing arrangements. We routinely monitor current and expected operational requirements and financial market conditions to evaluate the use of available financing sources. Considering our existing working capital position and our ability to access debt funding sources, we believe that our operations and borrowing resources are sufficient to provide for our current and foreseeable capital requirements to support our ongoing operations for the next twelve months.

NOTE 3 - BASIS OF PRESENTATION

The Company maintains its general ledger and journals using the accrual method of accounting for financial reporting purposes. The Company's financial statements and notes are the representations of the Company's management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States and have been consistently applied in the Company's presentation of its financial statements.

NOTE 4 – PRINCIPLES OF CONSOLIDATION

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

- (1) Continental Development Limited (“Continental”), a wholly-owned subsidiary of the Company incorporated under the laws of Hong Kong;
- (2) Kandi Vehicles, a wholly-owned subsidiary of Continental;

Kandi New Energy, a 50%-owned subsidiary of Kandi Vehicles (Mr. Hu Xiaoming owns the other 50%). Pursuant to agreements executed in January 2011, Mr. Hu Xiaoming contracted with Kandi Vehicles for the operation and management of Kandi New Energy and put his shares of Kandi New Energy into escrow. As a result, Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests of Kandi New Energy;
- (4) YongkangScrou, a wholly-owned subsidiary of Kandi Vehicles; and
- (5) Kandi Hainan, a subsidiary, 10% owned by Kandi New Energy and 90% owned by Kandi Vehicles.

Equity Method Investees

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

- (1) The JV Company, a 50% owned subsidiary of Kandi Vehicles;
- (2) Kandi Changxing, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Changxing;
- (3) Kandi Jinhua, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jinhua;
- (4) JiHeKang, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in JiHeKang;
- (5) Kandi Shanghai, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Shanghai;
- (6) Kandi Jiangsu, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jiangsu;
- (7) The JiHeKang Service Company, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in the JiHeKang Service Company.
- (8) Tianjin BoHaiWan, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Tianjin BoHaiWan;

(9) Changxing Maintenance, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Changxing Maintenance;

(10) Liuchuang, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Liuchuang.

(11) Jiangsu Jidian, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Jiangsu Jidian.

(12) JiHeKang Tianjin, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in JiHeKang Tianjin.

(13) Guangdong JiHeKang, a wholly-owned subsidiary of the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Guangdong JiHeKang.

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

NOTE 5 – USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the Company's 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 China. As a result, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in China, and by the general state of the Chinese 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 China 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 China, 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 for 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 receivables, 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 receivables, 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 brief maturities and because the interest rates on these borrowings approximate those that would have been available for loans of similar remaining maturities and risk profiles. As the carrying amounts are reasonable estimates of fair value, these financial instruments are classified within Level 1 of the fair value hierarchy. The Company identified notes payable as Level 2 instruments due to the fact that the inputs to valuation are primarily based upon readily observable pricing information. The balance of notes payable, which was measured and disclosed at fair value, was \$28,075,945 and \$14,797,325 at December 31, 2017 and December 31, 2016, respectively.

Warrants, which are accounted for 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 \$0 at December 31, 2017 and December 31, 2016, 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 December 31, 2017, and December 31, 2016, includes time deposits on account for earning interest income. As of December 31, 2017, and December 31, 2016, the Company's restricted cash was \$11,218,688 and \$12,957,377.

(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 basis of weighted average 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 net realizable value are made, if required, for estimated excess, obsolescence, or impaired balances.

(e) Accounts Receivable and Due from the JV Company and Related Parties

Accounts receivable are recognized and carried at net realizable value. An allowance for doubtful accounts is recorded for 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 exhaustive collection efforts. 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 December 31, 2017 and December 31, 2016, credit terms with the Company's customers were typically 180 to 360 days after delivery. In 2016, the Company extended credit terms with certain customers, mainly the JV Company whose outstanding balance has already exceeded the originally granted credit terms to a much longer period because of delayed subsidy payments for EVs sold by the JV Company from the Chinese government. Because of the industry-wide subsidy review, the Chinese government temporarily delayed issuance of subsidy payments for the EVs sold in 2015 and 2016, which negatively impacted the JV Company's cash flow position and caused its delay in repaying the Company. According to the government's subsidy policies, the EVs sold in 2015 and 2016 by the JV Company are eligible for receiving subsidies and the Chinese government has a good record of paying subsidies. As of December 31, 2017, and December 31, 2016, the Company had a \$133,930 and \$0 allowance for doubtful accounts, as per the Company management's judgment based on their best knowledge. The Company conducts quarterly assessments of the state of the Company's outstanding receivables and reserves any allowance for doubtful accounts if it becomes necessary. As of December 31, 2017, based on the Company management's collection experience, approximately \$15.9 million of amount due from the JV Company in the current assets was reclassified to amount due from the JV Company in the long-term assets due to the reason mentioned above.

(f) Notes Receivable

Notes receivable represent short-term loans to third parties with maximum terms of six months. Interest income is recognized according to each agreement between a borrower and the Company on an accrual basis. For notes receivable with banks, the interest rates are determined by banks. For notes receivable with other parties, the interest rates are based on agreements between the parties. If notes receivable are paid back, that transaction will be recognized in the relevant year. If notes receivable are not paid back, or are written off, that transaction will be recognized in the relevant year if 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, the Company provides an accrual for the related foreclosure and litigation expenses. The Company also receives notes receivable from the JV Company and other parties to settle accounts receivable. If the Company decides to discount notes receivable for the purpose of receiving immediate cash, the current discount rate is approximately in the range of 4.80% to 5.00% annually. As of December 31, 2017 and December 31, 2016, the Company had notes receivable from the JV Company and other related parties of \$1,137,289 and \$400,239, respectively, which notes receivable typically mature within six months.

(g) Advances to Suppliers

Advances to suppliers represent cash paid in advance to suppliers, and include advances to raw material suppliers, mold manufacturers, and equipment suppliers.

As of December 31, 2017, the Company had made a total advance payments of RMB744 million (approximately \$114 million) to Nanjing Shangtong Auto Technologies Co., Ltd. (“Nanjing Shangtong”) as an advance to purchase a production line and develop a new EV model for Kandi Hainan. Nanjing Shangtong is a total solutions contractor for Kandi Hainan and provides all the equipment and EV product design and research services used by Kandi Hainan. After such advances were transferred to construction in progress and expensed for R&D purposes, the Company had \$14,796,504 left in Advance to Suppliers in current assets and \$ 12,336,973 left in Advance to Suppliers in long-term assets related to the purchases from Nanjing Shangtong as of December 31, 2017.

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

(h) Property, Plants and Equipment

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

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

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

(i) Construction in Progress

Construction in progress (“CIP”) represents the direct costs of construction, and the acquisition costs of buildings or machinery. Capitalization of these costs ceases, and construction in progress is transferred to plants and equipment, when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for until the assets are completed and ready for their intended use. \$2,181,512 of interest expenses have been capitalized for CIP as of December 31, 2017.

(j) Land Use Rights

Land in China is owned by the government and land ownership rights cannot be sold to an individual or to a private company. However, the Chinese government grants the user a “land use right” to use the land. The land use rights granted to the Company are amortized using the straight-line method over a term of fifty years.

(k) Accounting for the Impairment of Long-Lived Assets

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review, pursuant to the guidelines established in Statement of Financial Accounting Standards (“SFAS”) No. 144 (now known as “ASC 360”). The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for disposal costs.

The Company recognized no impairment loss during the reporting period.

(l) Revenue Recognition

Revenue represents the invoiced value of goods sold. Revenue is recognized when the Company ships the goods to its customers and all of the following criteria are met:

Persuasive evidence of an arrangement exists;

Delivery has occurred or services have been rendered;

The seller's price to the buyer is fixed or determinable; and

Collectability is reasonably assured.

The Company recognized revenue when the products and the risks they carry are transferred to the other party.

F-19

(m) Research and Development

Expenditures relating to the development of new products and processes, including improvements to existing products, are expensed as incurred. Research and development expenses were \$27,628,085, \$26,504,650 and \$3,482,511 for the years ended December 31, 2017, 2016 and 2015, respectively.

(n) Government Grants

Grants and subsidies received from the Chinese government are recognized when the proceeds are received or collectible and related milestones have been reached and all contingencies have been resolved.

For the years ended December 31, 2017, 2016 and 2015, \$5,913,554, \$25,913,540 and \$1,645,032, respectively, were received by the Company's subsidiaries from the Chinese government.

(o) Income Taxes

The Company accounts for income tax using an asset and liability approach, which allows for the recognition of deferred tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The accounting for deferred tax calculation represents the Company management's best estimate of 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 will be uncertain.

(p) Foreign Currency Translation

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

Assets and liabilities are translated at the exchange rates as of balance sheet date. Income and expenditures are translated at the average exchange rate of the reporting period, which rates are obtained from the website: <http://www.ofx.com>

	December 31, 2017	December 31, 2016	December 31, 2015
Period end RMB : USD exchange rate	6.5067	6.94585	6.49270
Average RMB : USD exchange rate	6.7568	6.64520	6.24010

F-20

(q) Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. Comprehensive income includes net income and the foreign currency translation changes.

(r) Segments

In accordance with ASC 280-10, Segment Reporting, the Company's chief operating decision makers rely upon the consolidated results of operations when making decisions about allocating resources and assessing the performance of the Company. As a result of the assessment made by the Company's chief operating decision makers, the Company has only one operating segment. The Company does not distinguish between markets or segments for the purpose of internal reporting.

(s) Stock Option Expenses

The Company's stock option expenses are recorded in accordance with ASC 718 and ASC 505.

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

The recognition of stock option expenses is based on awards expected to vest. ASC standards require forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The stock-based option expenses for the years ended December 31, 2017, 2016 and 2015 were \$3,763,282, \$14,867,987 and \$14,255,887, respectively. See Note 19. There were no forfeitures estimated during the reporting

period.

(t) Goodwill

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

F-21

Application of the goodwill impairment test requires judgments, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and the determination of the fair value of each reporting unit. The Company first assesses qualitative factors to determine whether it is more likely than not that goodwill is impaired. If the more likely than not threshold is met, the Company performs a quantitative impairment test.

As of December 31, 2017 and December 31, 2016, the Company determined that its goodwill was not impaired.

(u) Intangible Assets

Intangible assets consist of trade names and customer relations associated with the purchase price from the allocation of YongkangScrou. Such assets are being amortized over their estimated useful lives of 9.7 years. Intangible assets were amortized as of December 31, 2017. The amortization expenses for intangible assets were \$82,095 and \$82,095 for the years ended December 31, 2017 and 2016, respectively.

(v) Accounting for Sale of Common Stock and Warrants

Gross proceeds are first allocated according to the initial fair value of the freestanding derivative instruments (i.e. the warrants issued to the Company's investors in its previous offerings, or the "Investor Warrants"). The remaining proceeds are allocated to common stock. The related issuance expenses, including the placement agent cash fees, legal fees, the initial fair value of the warrants issued to the placement agent and others were allocated between the common stock and the Investor Warrants based on how the proceeds are allocated to these instruments. Expenses related to the issuance of common stock were charged to paid-in capital. Expenses related to the issuance of derivative instruments were expensed upon issuance.

(w) Consolidation of variable interest entities

In accordance with accounting standards regarding consolidation of variable interest entities, or VIEs, VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

The Company has concluded, based on the contractual arrangements, that Kandi New Energy is a VIE and that the Company's wholly-owned subsidiary, Kandi Vehicles, absorbs a majority of the risk of loss from the activities of this company, thereby enabling the Company, through Kandi Vehicles, to receive a majority of its respective expected residual returns.

Additionally, because Kandi New Energy is under common control with other entities, the consolidated financial statements have been prepared as if the transactions had occurred retroactively as to the beginning of the reporting period of these consolidated financial statements.

F-22

Control and common control are defined under the accounting standards as “an individual, enterprise, or immediate family members who hold more than 50 percent of the voting ownership interest of each entity.” Because the owners collectively own 100% of Kandi New Energy, and have agreed to vote their interests in concert since the establishment of each of these three companies as memorialized the Voting Rights Proxy Agreement, the Company believes that the owners collectively have control and common control of Kandi New Energy. Accordingly, the Company believes that Kandi New Energy was constructively held under common control by Kandi Vehicles as of the time the contractual agreements were entered into, establishing Kandi Vehicles as their primary beneficiary. Kandi Vehicles, in turn, is owned by Continental, which is owned by the Company.

NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements that the Company has adopted or may be required to adopt in the future are summarized below:

In August 2014, the FASB issued an accounting standards update which requires management to assess whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the financial statements are issued. If substantial doubt exists, additional disclosures are required. This update was effective for the Company’s annual period ended January 28, 2017. The Company’s assessment of our ability to continue as a going concern is further discussed in Note 2 - Liquidity. The adoption of the new standard did not have a material impact on the Company’s consolidated financial position, results of operations, cash flows or disclosures.

In May 2014, the FASB issued an accounting standards update which replaces the current revenue recognition standards. Subsequently, the FASB has also issued accounting standards updates which clarify the guidance. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard was initially released as effective for fiscal years beginning after December 15, 2016, however, the FASB has decided to defer the effective date of this accounting standard update for one year. Early adoption of the update is permitted, but not before the original date for fiscal years beginning after December 15, 2016. The update may be applied retrospectively for each period presented or as a cumulative-effect adjustment at the date of adoption. The Company does not expect the adoption of the new standard will have a material impact on the Company’s consolidated financial position, results of operations, cash flows or disclosures.

NOTE 8 – CONCENTRATIONS

(a) Customers

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

Major Customers	Sales				Trade Receivable			
	Year ended		Year ended		December 31		December 31	
	Ended	Ended	Ended	Ended	December 31	December 31	December 31	December 31
	December 31,	December 31,	December 31,	December 31,	2017	2016	2017	2016
Kandi Electric Vehicles Group Co., Ltd.	89%	59%	34%	71%	53%	55%		

Trade receivable includes accounts receivable, amount due from the JV Company net of loans to the JV Company, and amount due from other related parties.

(b) Suppliers

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

Major Suppliers	Purchases				Accounts Payable			
	Year ended		Year ended		December 31		December 31	
	Ended	Ended	Ended	Ended	December 31	December 31	December 31	December 31
	December 31,	December 31,	December 31,	December 31,	2017	2016	2017	2016
Dongguan Chuangming Battery Technology Co., Ltd.	26%	42%	26%	19%	22%	15%		
Zhejiang Tianneng Energy Technology Co., Ltd.	25%	23%	20%	11%	15%	24%		
Jinhua An Kao Power Technology Co., Ltd.	12%	-	-	3%	-	-		

NOTE 9 –EARNINGS PER SHARE

The Company calculates earnings per share in accordance with ASC 260, Earnings Per Share, which requires a dual presentation of basic and diluted earnings per share. Basic earnings per share are computed using the weighted average number of shares outstanding during the reporting period. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options, warrants and convertible notes (using the if-converted method). For the years ended December 31, 2017, 2016 and 2015, the number of potentially dilutive common shares were 0, 0 and 180,836, respectively. The potential dilutive common shares as of December 31, 2017, 2016 and 2015 were 4,233,334, 4,566,667 and 0, respectively.

F-24

