Kandi Technologies Corp
Form 10-Q
May 17, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from ______to______

Commission file number 001-33997

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

Delaware (State or other jurisdiction of incorporation or organization)	90-0363723 (I.R.S. Employer Identification No.)

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

(86 - 0579) 82239856
(Registrant's telephone number, including area code)

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

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

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

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

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

Yes o No þ

As of May 14, 2010 the registrant had issued and outstanding 20,338,203 shares of common stock, par value $.001 per share.

TABLE OF CONTENTS

PART I— FINANCIAL INFORMATION

Item 1. Financial Statements. (Unaudited)

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2010 (Unaudited)	December 31, 2009
CURRENT ASSETS		
Cash and cash equivalents	$ 2,461,084	$ 218,207
Restricted cash	6,437,314	5,704,984
Accounts receivable, net of allowance for doubtful accounts of $0 as of March 31, 2010 and December 31, 2009	11,651,311	14,879,968
Inventories, net of reserve for slow moving inventories of $152,303 and $152,278 as of March 31, 2010 and December 31, 2009, respectively	8,809,240	5,382,760
Notes receivable	9,483,766	2,267,599
Other receivables	278,050	321,336
Prepayments and prepaid expenses	30,088	30,083
Due from employees	38,611	28,228
Advances to suppliers	522,976	1,164,672
Total Current Assets	39,712,440	29,997,837
LONG-TERM ASSETS		
Plant and equipment, net	22,434,334	23,146,833
Land use rights, net	10,660,438	10,719,528
Deferred tax asset	207,747	207,747
Total Long-Term Assets	33,302,519	34,074,108
TOTAL ASSETS	$ 73,014,959	$ 64,071,945

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2010 (Unaudited)	December 31, 2009
CURRENT LIABILITIES		
Accounts payable	$ 4,670,288	$ 4,738,543
Other payables and accrued expenses	2,081,784	1,871,020
Short-term bank loans	27,939,907	26,326,566
Customer deposits	23,291	39,371
Notes payable	5,705,007	7,931,540
Income tax payable	60,943	201,564
Due to employees	43,894	88,306
Due to related party	841,251	841,251
Deferred tax liability	51,927	62,544
Total Current Liabilities	41,418,292	42,100,705
LONG TERM LIABILITIES		
Note payable, net of discount of $8,849,457 and $0 as of March 31, 2010 and December 31, 2009, respectively	1,150,543	-
Warrant liabilities	6,747,535	-
Total Long-Term Liabilities	7,898,078	-
TOTAL LIABILITIES	49,316,370	42,100,705
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value; 100,000,000 shares authorized; 19,994,350 and 19,961,000 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	19,994	19,961
Additional paid-in capital	10,878,775	8,967,012
Retained earnings (the restricted portion is $890,912 at March 31, 2010 and December 31, 2009)	10,869,104	11,046,999
Accumulated other comprehensive income	1,930,716	1,937,268
TOTAL STOCKHOLDERS' EQUITY	23,698,589	21,971,240
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 73,014,959	$ 64,071,945

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31, 2010	March 31, 2009
REVENUES, NET	$ 8,254,624	$ 4,005,904
COST OF GOODS SOLD	(6,404,615)	(3,025,722)
GROSS PROFIT	1,850,009	980,182
Research and development	343,407	526,201
Selling and distribution expenses	852,326	86,184
General and administrative expenses	650,812	777,932
INCOME (LOSS) INCOME FROM OPERATIONS	3,464	(410,135)
Interest expense, net	(207,926)	(309,304)
Government grants	29,842	99,053
Other income, net	47,051	56,214
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(127,569)	(564,172)
INCOME TAX EXPENSE	(50,326)	(18,727)

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended	
	March 31, 2010	March 31, 2009
NET (LOSS)	(177,895)	(582,899)
OTHER COMPREHENSIVE INCOME		
Foreign currency translation	6,552	12,298
COMPREHENSIVE (LOSS)	(171,343)	(570,601)
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	19,972,117	19,961,000
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	19,972,117	19,961,000
NET (LOSS) PER SHARE, BASIC	$ (0.01)	$ (0.03)
NET (LOSS) PER SHARE, DILUTED	(0.01)	(0.03)

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (177,895)	$ (582,899)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	942,537	844,728
Deferred taxes	(10,617)	18,727
Option and warrant expense	1,885,117	210,117
Inventory reserve	-	151,996
Change of derivative instrument's fair value	(2,101,922)	-
Changes in operating assets and liabilities:		
(Increase) Decrease In:		
Accounts receivable	3,231,085	701,590
Inventories	(3,425,649)	(586,108)
Other receivables and prepaid expenses	43,338	82,563
Due from employees	(54,806)	(5,736)
Prepayments and prepaid expenses	641,890	(471,406)
Increase (Decrease) In:		
Accounts payable	(69,018)	(4,308,304)
Other payables and accrued liabilities	210,518	(103,813)
Customer deposits	(16,086)	(656,498)
Income tax payable	(140,655)	-
Net cash (used in) provided by operating activities	$ 957,837	$ (4,705,043)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of plant and equipment	(163,970)	(23,333)
Purchase of construction in progress	-	(30,971)
Issuance of notes receivable	(8,752,445)	(5,203,029)
Repayments of notes receivable	1,536,569	11,462,957

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31 2010	2009
Net cash provided by (used in) investing activities	$ (7,379,846)	$ 6,205,624
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash	(731,419)	1,740,822
Proceeds from short-term bank loans	9,654,727	9,349,071
Repayments of short-term bank loans	(8,045,605)	(9,316,263)
Proceeds from notes payable	14,388,512	9,511,583
Repayments of notes payable	(6,616,344)	(11,198,429)
Option exercise	26,680	-
Repayments of advances to related parties	-	52,315
Net cash provided by financing activities	8,676,551	139,099
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,254,542	1,639,680
Effect of exchange rate changes on cash	(11,665)	(13,366)
Cash and cash equivalents at beginning of period	218,207	141,380
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,461,084	$ 1,767,694
SUPPLEMENTARY CASH FLOW INFORMATION		
Income taxes paid	$ 201,598	$ -
Interest paid	$ 378,315	$ 425,186

SUPPLEMENTAL NON-CASH DISCLOSURE:
During the three months ended March 31, 2010 and 2009, $0 and $57,059 were transferred from construction in progress to plant and equipment, respectively.

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

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

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

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

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 2 – LIQUIDITY

The Company's working capital deficit is $1,705,852 as of March 31, 2010.

As of March 31, 2010, the Company has credit lines from commercial banks for $37,003,452, of which $27,939,907 was used at March 31, 2010.

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

NOTE 3 - BASIS OF PRESENTATION

The Company's unaudited condensed consolidated financial statements for the three months ended March 31, 2010 and 2009 have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the requirements for reporting on Rule 8-03 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. The condensed consolidated balance sheet information as of December 31, 2009 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with that report.

NOTE 4 – PRINCIPLES OF CONSOLIDATION

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

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

Inter-company accounts and transactions have been eliminated in consolidation.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 5 – USE OF ESTIMATES

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

NOTE 6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Economic and Political Risks

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

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

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Fair Value of Financial Instruments

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

These tiers include:

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

The assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of March 31, 2010 are as follows:

		Fair Value Measurements at Reporting Date Using Quoted Prices in		
	Carrying value as of March 31, 2010	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 2,461,084	$ 2,461,084	-	-
Restricted cash	$ 6,437,314	$ 6,437,314	-	-
Conversion features	$ 4,067,925	-	$ 4,067,925	-
Warrants	$ 2,679,610	-	$ 2,679,610	-

Cash and cash equivalents consist primarily of high rated money market funds at a variety of well-known institutions with original maturities of three months or less. Restricted cash represents time deposits on account to secure short-term bank loans and notes payable. The original cost of these assets approximates fair value due to their short term maturity.

Warrants and conversion features embedded in the convertible notes, which are accounted as liabilities, are treated as derivative instruments, which will be measured at each reporting date for their fair value using Level 2 inputs. Also see Note 6 section (r) and (s).

The Company's non-financial assets are measured on a recurring basis. These non-financial assets are measured for impairment annually on the Company's measurement date at the reporting unit level using Level 3 inputs. For most assets, ASC 820 requires that the impact of changes resulting from its application be applied prospectively in the year in which the statement is initially applied.

The Company’s non-financial assets measured on a non-recurring basis include the Company’s property, plant and equipment and finite-use intangible assets which are measured for recoverability when indicators for impairment are present. ASC 820 requires companies to disclose assets and liabilities measured on a non-recurring basis in the period in which the remeasurement at fair value is performed. The Company has reviewed its long-lived assets as of March 31, 2010 and determined that there are no significant assets to be tested for recoverability under ASC 360 and as such, no fair value measurements related to non-financial assets have been made during the three months ended March 31, 2010.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Cash and Cash Equivalents

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

Restricted cash on March 31, 2010 and December 31, 2009 represent time deposits on account to secure short-term bank loans and notes payable. Also see Notes 14 and 15.

(d) Inventories

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

Net realizable value is based on estimated selling prices less any further costs expected to be incurred for completion and selling expense.

(e) Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. At March 31, 2010 and December 31, 2009, the Company has an allowance for doubtful accounts of $0.

(f) Prepayments

Prepayments represent cash paid in advance to suppliers for raw materials purchases.

(g) Plant and Equipment

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

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

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

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Construction in Progress

Construction in progress represents direct costs of construction or the acquisition cost of buildings or machinery and design fees. Capitalization of these costs ceases and the construction in progress is transferred to plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until the assets are completed and ready for their intended use.

(i) Land Use Rights

According to the laws of China, land in the PRC is owned by the government and cannot be sold to an individual or a company. However, the government grants the user a "land use right" to use the land. The land use rights granted to the Company are being amortized using the straight-line method over the lease term of fifty years.

(j) 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 ASC No. 350. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

During the reporting period, there was no impairment loss.

(k) Revenue Recognition

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

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

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Research and Development

Expenditures relating to the development of new products and processes, including significant improvement to existing products are expensed as incurred. Research and development expenses were $343,407 and $526,201 for the three months ended March 31, 2010 and 2009, respectively.

(m) Government Grant

Grants received from the PRC Government for assisting in the Company's technical research and development efforts are netted against the relevant research and development costs incurred when the proceeds are received or collectible.

For the three months ended March 31, 2010 and 2009, $29,842 and $99,053 was received from the PRC government for the Company's contribution to the local economy.

(n) Income Taxes

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

(o) 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.

	March 31, 2010	December 31, 2009	March 31, 2009
Period end RMB : USD exchange rate	6.8361	6.8372	6.8456
Average quarterly RMB : USD exchange rate	6.8360	6.8409	6.8499

(p) 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.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Stock Option Cost

The Company’s stock option cost is recorded in accordance with ASC 718 and ASC 505.

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

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

The stock based compensation expense for the period ended March 31, 2010 is $981,468. Also see Note 17.

(r) Warrant Cost

The Company’s warrant costs are recorded in liabilities and equities respectively in accordance with ASC 480, ASC 505 and ASC 815.

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

Company determined that the equity based warrants are not considered derivatives under ASC 815, while the warrants, which are freestanding derivatives and are classified as liabilities on the balance sheet, will be measured at fair value on each reporting date, with changes in fair value recognized in earnings as interest expense.

(s) Fair Value of Conversion features

In accordance with ASC 815, the conversion feature of the convertible note is separated from the debt instrument and accounted for separately as a derivative instrument. On the date the notes are issued, the conversion feature was recorded as a liability at its fair value, and future changes in fair value will be recognized in earnings as interest expense.

The Company used the Black-Scholes-Merton option-pricing model to obtain the fair value of the conversion feature. The Company’s expected volatility assumption is based on the historical volatility of the Company’s stock. The expected life assumption is primarily based on the expiration date of the 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 measurement.

15

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS

Recently Implemented Standards

ASC 105, Generally Accepted Accounting Principles ("ASC 105") (formerly Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162) reorganized by topic existing accounting and reporting guidance issued by the Financial Accounting Standards Board ("FASB") into a single source of authoritative generally accepted accounting principles ("GAAP") to be applied by nongovernmental entities. All guidance contained in the Accounting Standards Codification ("ASC") carries an equal level of authority. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Accordingly, all other accounting literature will be deemed "non-authoritative." ASC 105 is effective on a prospective basis for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented the guidance included in ASC 105 as of July 1, 2009. The implementation of this guidance changed the Company's references to GAAP authoritative guidance but did not impact the Company's financial position or results of operations.

ASC 855, Subsequent Events ("ASC 855") (formerly Statement of Financial Accounting Standards No. 165, Subsequent Events) includes guidance that was issued by the FASB in May 2009, and is consistent with current auditing standards in defining a subsequent event. Additionally, the guidance provides for disclosure regarding the existence and timing of a company's evaluation of its subsequent events. ASC 855 defines two types of subsequent events, "recognized" and "non-recognized." Recognized subsequent events provide additional evidence about conditions that existed at the date of the balance sheet and are required to be reflected in the financial statements. Non-recognized subsequent events provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date and, therefore; are not required to be reflected in the financial statements. However, certain non-recognized subsequent events may require disclosure to prevent the financial statements from being misleading. This guidance was effective prospectively for interim or annual financial periods ending after June 15, 2009. The Company implemented the guidance included in ASC 855 as of July 1, 2009. The effect of implementing this guidance was not material to the Company's financial position or results of operations.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Recent Accounting Pronouncements

In August 2009, the FASB issued ASC Update No. 2009-05, Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value ("ASC Update No. 2009-05"). This update amends ASC 820, Fair Value Measurements and Disclosures and provides further guidance on measuring the fair value of a liability. The guidance establishes the types of valuation techniques to be used to value a liability when a quoted market price in an active market for the identical liability is not available, such as the use of an identical or similar liability when traded as an asset. The guidance also further clarifies that a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are both Level 1 fair value measurements. If adjustments are required to be applied to the quoted price, it results in a Level 2 or 3 fair value measurement. The guidance provided in the update is effective for the first reporting period (including interim periods) beginning after issuance. The Company has implemented ASC Update No. 2009-05 as of March 31, 2010.

In September 2009, the FASB issued ASC Update No. 2009-12, Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) ("ASC Update No. 2009-12"). This update sets forth guidance on using the net asset value per share provided by an investee to estimate the fair value of an alternative investment. Specifically, the update permits a reporting entity to measure the fair value of this type of investment on the basis of the net asset value per share of the investment (or its equivalent) if all or substantially all of the underlying investments used in the calculation of the net asset value is consistent with ASC 820. The update also requires additional disclosures by each major category of investment, including, but not limited to, fair value of underlying investments in the major category, significant investment strategies, redemption restrictions, and unfunded commitments related to investments in the major category. The amendments in this update are effective for interim and annual periods ending after December 15, 2009 with early application permitted. The Company does not expect that the implementation of ASC Update No. 2009-12 will have a material effect on its financial position or results of operations.

In June 2009, FASB issued Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) ("Statement No. 167"). Statement No. 167 amends FASB Interpretation No. 46R, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 ("FIN 46R") to require an analysis to determine whether a company has a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The statement requires an ongoing assessment of whether a company is the primary beneficiary of a variable interest entity when the holders of the entity, as a group, lose power, through voting or similar rights, to direct the actions that most significantly affect the entity's economic performance. This statement also enhances disclosures about a company's involvement in variable interest entities. Statement No. 167 is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. Although Statement No. 167 has not been incorporated into the Codification, in accordance with ASC 105, the standard shall remain authoritative until it is integrated. The Company does not expect the adoption of Statement No. 167 to have a material impact on its financial position or results of operations.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (“Statement No. 166”). Statement No. 166 revises FASB Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Extinguishment of Liabilities a replacement of FASB Statement 125 (“Statement No. 140”) and requires additional disclosures about transfers of financial assets, including securitization transactions, and any continuing exposure to the risks related to transferred financial assets. It also eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and enhances disclosure requirements. Statement No. 166 is effective prospectively, for annual periods beginning after November 15, 2009, and interim and annual periods thereafter. Although Statement No. 166 has not been incorporated into the Codification, in accordance with ASC 105, the standard shall remain authoritative until it is integrated. The Company does not expect the adoption of Statement No. 166 will have a material impact on its financial position or results of operations.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 8 – CONCENTRATIONS

(a) Customers

The Company's major customers for the period ended March 31, 2010 accounted for the following percentages of total sales and accounts receivable as follows:

	Sales		Accounts Receivable	
Major Customers	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	March 31, 2010	December 31, 2009
Company A	93%	64%	90%	91%
Company B	3%	35%	6%	9%
Company C	3%	-	3%	-
Company D	1%	-	1%	-
Company E	-	1%	-	-

(b) Suppliers

The Company's major suppliers for the three months ended March 31, 2010 accounted for the following percentage of total purchases and accounts payable as follows:

	Purchases		Accounts Payable	
Major Suppliers	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	March 31, 2010	December 31, 2009
Company F	90%	84%	7%	39%
Company G	2%	2%	2%	1%
Company H	1%	1%	2%	1%
Company I	1%	-	1%	2%
Company J	1%	-	-	-

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 9 – (LOSS) INCOME PER SHARE

The Company calculates earnings per share in accordance with ASC 260, Earnings Per Share, which requires a dual presentation of basic and diluted earnings per share. Basic earnings per share are computed using the weighted average number of shares outstanding during the fiscal year. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options, warrants and convertible note (using the if-converted method). For the three months ended March 31, 2010, there are no potentially dilutive common shares because all the options, warrants and convertible notes were anti-dilutive.

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

Three months Ended March 31,	2010	2009
Net (loss)	$ (177,895)	$ (582,899)
Weighted – average shares of common stock outstanding		
Basic	19,972,117	19,961,000
Dilutive shares	-	-
Diluted	19,972,117	19,961,000
Basic (loss) per share	$ (0.01)	$ (0.03)
Diluted (loss) per share	$ (0.01)	$ (0.03)

Also see Note 17.

NOTE 10 - INVENTORIES

Inventories are summarized as follows:

	March 31, 2010 (Unaudited)	December 31, 2009
Raw material	$ 839,019	$ 956,378
Work-in-progress	7,459,366	3,785,506
Finished goods	663,158	793,154
	8,961,543	5,535,038
Less: reserve for slow moving inventories	(152,303)	(152,278)
Inventories, net	$ 8,809,240	$ 5,382,760

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 11 - NOTES RECEIVABLE

Notes receivable are summarized as follows:

	March 31, 2010 (Unaudited)	December 31, 2009
Notes receivable from unrelated companies:		
Due February 24, 2010, interest at 5.0% per annum	$ -	$ 1,146,574
Due February 24, 2010, interest at 5.0% per annum	-	389,731
Due April 29, 2010, interest at 5.31% per annum (subsequently settled on its due date)	731,410	731,294
Due March 3, 2011, interest at 6.0% per annum	1,165,488	-
Due March 7, 2011, interest at 6.0% per annum	409,284	-
Due September 24, 2010, interest at 6.0% per annum	2,043,077	-
Due September 30, 2010, interest at 8.0% per annum	5,134,507	-
Notes receivable from unrelated companies	9,483,766	2,267,599
Bank acceptance notes:		
Bank acceptance notes	-	-
Notes receivable	$ 9,483,766	$ 2,267,599

Notes receivable are unsecured.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 12 – LAND USE RIGHTS

Land use rights consist of the following:

	March 31, 2010 (Unaudited)	December 31, 2009
Cost of land use rights	$ 11,196,541	$ 11,168,397
Less: Accumulated amortization	(536,103)	(448,869)
Land use rights, net	$ 10,660,438	$ 10,719,528

As of March 31, 2010 and December 31, 2009, the net book value of land use rights pledged as collateral for bank loans was $3,934,500 and $2,456,811 respectively. Also see Note 14.

As of March 31, 2010 and December 31, 2009, the net book value of land use rights pledged as collateral for bank loans borrowed by Zhejiang Mengdeli Electronic Co., Ltd. ("ZMEC"), an unrelated party of the Company was $6,725,938 and $6,274,601. Also see Notes 14 and 18.

The amortization expense for the three months ended March 31, 2010 and 2009 was $60,815 and $56,241 respectively.

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

2010 (nine months)	$ 182,445
2011	243,260
2012	243,260
2013	243,260
2014	243,260
Thereafter	9,504,953
Total	$ 10,660,438

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 13 – PLANT AND EQUIPMENT

Plant and equipment consist of the following:

	March 31, 2010 (Unaudited)	December 31, 2009
At cost:		
Buildings	$ 12,518,880	$ 12,413,935
Machinery and equipment	9,311,399	9,252,390
Office equipment	117,898	114,380
Motor vehicles	166,643	166,616
Moulds	10,717,390	10,715,666
	32,832,210	32,662,987
Less : Accumulated depreciation		
Buildings	$ (1,074,347)	$ (970,725)
Machinery and equipment	(5,833,802)	(5,601,424)
Office equipment	(97,233)	(95,295)
Motor vehicles	(103,110)	(95,697)
Moulds	(3,289,384)	(2,753,013)
	(10,397,876)	(9,516,154)
Plant and equipment, net	$ 22,434,334	$ 23,146,833

As of March 31, 2010 and December 31, 2009, the net book value of plant and equipment pledged as collateral for bank loans was $6,394,737 and $4,308,435, respectively. Also see Note 14.

As of March 31, 2010, the net book value of land use rights pledged as collateral for bank loans borrowed by ZMEC, an unrelated party of the Company was $4,638,102. Also see Notes 14 and 18.

Depreciation expense for three months ended March 31, 2010 and 2009 was $881,722 and $788,487 respectively.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 14 – SHORT TERM BANK LOANS

Short-term loans are summarized as follows:

	March 31, 2010 (Unaudited)	December 31, 2009
Loans from ICBC-Exploration Zone Branch		
Monthly interest only payments at 5.841% per annum, due April 2, 2010, secured by the assets of the Company. Also see Notes 12 and 13 (subsequently repaid on its due date).	$ 1,609,105	$ -
Monthly interest only payments at 5.84% per annum, due April 6, 2010, secured by the assets of the Company. Also see Notes 12 and 13 (subsequently repaid on its due date).	731,411	731,294
Monthly interest only payments at 5.31% per annum, due April 15, 2010. Collateralized by a time deposit. Also see Notes 12 and 13 (subsequently repaid on its due date).	1,316,540	1,316,328
Monthly interest only payments at 5.31% per annum, due June 3, 2010, secured by the assets of the Company. Also see Notes 12 and 13.	731,411	731,294
Monthly interest only payments at 5.31% per annum, due August 10, 2010, secured by the assets of the Company. Also see Notes 12 and 13.	394,962	394,899
Monthly interest only payments at 5.31% per annum, due August 11, 2010, secured by the assets of the Company. Also see Notes 12 and 13.	438,847	438,776
Monthly interest only payments at 5.31% per annum, due October 11, 2010, secured by the assets of the Company. Also see Notes 12 and 13.	658,270	658,164
Monthly interest only payments at 5.31% per annum, due October 13, 2010, secured by the assets of the Company. Also see Notes 12 and 13	702,155	702,042
Monthly interest only payments at 5.31% per annum, due November 12, 2010, secured by the assets of the Company. Also see Notes 12 and 13	146,282	146,259
Monthly interest only payments at 5.31% per annum, due December 3, 2010, secured by the assets of the Company. Also see Notes 12 and 13	585,129	585,035

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 14 - SHORT TERM BANK LOANS (CONTINUED)

	March 31, 2010 (Unaudited)	December 31, 2009
Loans from Commercial Bank-Jiangnan Branch		
Monthly interest only payments at 5.84% per annum, due January 5, 2010, guaranteed by Yongkang Kangli Metal Manufacturing Co. and pledged by Jingdezhen De'er industrial investment Co., Ltd.	-	2,925,174
Monthly interest only payments at 5.84% per annum, due May 5, 2010, secured by the assets of the Company, and guaranteed by Mr. Hu Xiaoming and Ms. Ling Yueping. Also see Notes 12 and 13.	1,462,822	1,462,587
Monthly interest only payments at 5.84% per annum, due January 5, 2011, guaranteed by Mr. Hu Xiaoming, Mr. Lu Qinjiang, Mr. Lu Qinbo, Ms. Ling Yueping and Yongkang Kangli Metal Manufacturing Co. and pledged by Jingdezhen De'er industrial investment Co., Ltd.	2,925,645	-
Loans from Huaxia Bank		
Monthly interest only payments at 5.58% per annum, due September 21, 2010, secured by the assets of the Company, guaranteed by Mr.Hu Xiaoming, Yongkang Kangli Metal Manufacturing Co. and Kandi Investment Group Co.	3,949,620	3,948,985
Loans from China Every-bright Bank		
Monthly interest only payments at 5.58% per annum, due February 22, 2010, pledged office building of Mr. Hu Xiaoming and Ms. Ling Yueping, guaranteed by Nanlong Group Co., Ltd., and Yongkang Kangli Metal Manufacturing Co.	-	4,387,761
Monthly interest only payments at 5.20% per annum, due August 4, 2010, pledged office building of Mr. Hu Xiaoming and Ms. Ling Yueping, guaranteed by Nanlong Group Co., Ltd., and Zhejiang Mengdeli Electric Company.	4,388,467	-
Loans from Shanghai Pudong Development Bank		
Monthly interest only payments at 4.78% per annum, due April 28, 2010. Collateralized by a time deposit (Subsequently repaid on its due date).	1,316,540	1,316,328
Monthly interest only payments at 5.58% per annum, due December 8, 2010, guaranteed by Nanlong Group Co., Ltd. and Mr. Hu Xiaoming.	2,925,645	2,925,174

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 14 - SHORT TERM BANK LOANS (CONTINUED)

	March 31, 2010 (Unaudited)	December 31, 2009
Loans from China Every-growing Bank		
Monthly interest only payments at 5.84% per annum, due October 27, 2010, guaranteed by Zhejiang Shuguang industrial Co., Ltd., and Zhejiang Mengdeli Electric Company.	2,925,645	2,925,173
Loans from China Communication Bank-Jinhua Branch		
Monthly interest only payments at 5.58% per annum, due February 15, 2010, guaranteed by Zhejiang Shuguang industrial Co., Ltd. and Mr. Hu Xiaoming.	-	731,293
Monthly interest only payments at 5.84% per annum, due February 04, 2010, guaranteed by Mr. Hu Xiaoming, Mr. Yan Guanwei and Zhejiang Shuguang industrial Co., Ltd.	731,411	-
Total	$ 27,939,907	$ 26,326,566

Interest expense for the three month ended March 31, 2010 and 2009 was $372,878, and $516,869, respectively.

As of March 31, 2010, the aggregated amount of short term loans that are guaranteed by various third parties is $19,309,255. Also see Note 18.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 15 – NOTES PAYABLE

Notes payable are summarized as follows:

	March 31, 2010 (Unaudited)	December 31, 2009
Bank acceptance notes:		
Due March 8, 2010	$ -	$ 1,462,587
Due March 24, 2010	-	1,462,587
Due April 14, 2010 (subsequently repaid on its due date)	1,316,541	1,316,328
Due July 6, 2010	1,462,822	-
Due September 9, 2010	1,462,822	-
Due September 23, 2010	1,462,822	-
Subtotal	$ 5,705,007	$ 4,241,502
Notes payable to unrelated companies:		
Due December 1, 2010	$ -	$ 3,690,038
Due January 20, 2012	1,150,543	-
Subtotal	1,150,543	3,690,038
Total	$ 6,855,550	$ 7,931,540

All the bank acceptance notes do not bear interest, but are subject to bank charges of 0.005% of the principal as commission on each loan transaction.

Restricted cash of $3,510,774 is held as collateral for the following notes payable at March 31, 2010:

Due April 14, 2010 (subsequently repaid on its due date)	$ 1,316,541
Due July 6, 2010	1,462,822
Due September 9, 2010	1,462,822
Due September 23, 2010	1,462,822
Subtotal	$ 5,705,007

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 16 – TAX

(a) Corporation Income Tax (“CIT”)

On March 16, 2007, the National People’s Congress of China approved the Corporate Income Tax Law of the People’s Republic of China (the “new CIT law”), which went into effect on January 1, 2008. In accordance with the relevant tax laws and regulations of the PRC, the applicable corporate income tax rate is 25%.

Prior to January 1, 2008, the CIT rate applicable to the Company is 33%. Kandi’s first profitable tax year for income tax purposes as a foreign-invested company was 2007. As a foreign-invested company, the income tax rate of Kandi is entitled to a 50% tax holiday based on 25% for the years from 2009 through 2011. During the transition period, the above tax concession granted to the Company prior to the new CIT law will be grandfathered according to the interpretations of the new CIT law.

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

Effective January 1, 2007, the Company adopted ASC 740, Income Taxes. The interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements.

Under ASC 790, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of March 31, 2010, the Company does not have a liability for unrecognized tax benefits. The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to U.S. federal or state income tax examinations by tax authorities for years after 2005. During the periods open to examination, the Company has net operating loss carry forwards (“NOLs”) for U.S. federal and state tax purposes that have attributes from closed periods. Since these NOLs may be utilized in future periods, they remain subject to examination. The Company also files certain tax returns in China. As of March 31, 2010 the Company was not aware of any pending income tax examinations by China tax authorities. The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of March 31, 2010, the Company has no accrued interest or penalties related to uncertain tax positions. The Company has not recorded a provision for U.S federal income tax for the three months ended March 31, 2010 due to the net operating loss carry forward in the United States.

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 16 – TAX (CONTINUED)

Income tax expense (benefit) for the three months ended March 31, 2010 and 2009 is summarized as follows:

	For the Three Months Ended March 31, (Unaudited)	
	2010	2009
Current:		
Provision for CIT	$ 60,943	$ -
Deferred:		
Provision for CIT	(10,617)	18,727
Income tax expense (benefit)	$ 50,326	$ 18,727

The Company's income tax expense (benefit) differs from the "expected" tax expense for the three months ended March 31, 2010 and 2009 (computed by applying the CIT rate of 25%, respectively to income before income taxes) as follows:

	For the Three Months Ended March 31, (Unaudited)	
	2010	2009
Computed "expected" (benefit) expense	$ (31,892)	$ (141,043)
Favorable tax rate	(60,943)	(123,021)
Permanent differences	58,159	276,160
Valuation allowance	85,002	6,631
Income tax expense (benefit)	$ 50,326	$ 18,727

The tax effects of temporary differences that give rise to the Company's net deferred tax assets and liabilities as of March 31, 2010 and December 31, 2009 are summarized as follows:

KANDI TECHNOLOGIES, CORP.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2010 (UNAUDITED)

NOTE 16 – TAX (CONTINUED)

	March 31, 2010 (Unaudited)	December 31, 2009
Current portion:		
Deferred tax assets:		
Expense	$ -	$ 23,028
Subtotal	-	23,028
Deferred tax liabilities:		
Sales cut-off	(51,927)	(85,572)
Other	-	-
Subtotal	(51,927)	(85,572)
Total deferred tax liabilities – current portion	(51,927)	(62,544)